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JOHN T. FEY,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLANT.

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UNITED STATES GYPSUM COMPANY,
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ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLANT.

Appellant, United States Gypsum Company (USG), appeals from the decree of a three-judge court of the United States District Court for the District of Columbia, entered December 9, 1954 (*infra,* Appendix A; R. 1159), modifying a final decree of that court entered May 15, 1951 (*infra,* Appendix B; R. 562).*

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* By stipulation, the six volumes of the record filed on the Government's appeal to the October, 1947, term of this Court (see 333 U. S. 364) may be referred to in the briefs filed on this appeal. Such reference will be designated "1947 R." followed by the page number. All other record references herein will be to the record printed on this appeal, and will be designated "R.", followed by the page number.

OPINIONS BELOW.

The opinion of the district court, filed June 30, 1955 (R. 1336), denying the USG motion for a new trial is reported at 134 F. Supp. 69.

The opinion of the district court denying reconsideration, filed December 9, 1954 (R. 1136) is unreported.

The opinion of the district court granting modification of the final decree and the dissenting opinion, filed July 6, 1954 (R. 975, 1015), are reported at 124 F. Supp. 573, 598.

The opinions of Judges Garrett and Jackson granting the Government's motion for summary judgment, filed on June 29, 1948 (following the first remand by this Court), and the dissenting opinions of Judge Stephens with respect thereto (R. 138-140, 478) are unreported.

The opinion of the district court dismissing the antitrust suit at the close of the Government's case, filed June 15, 1946 (1947 R. 3933), is reported at 67 F. Supp. 397.

JURISDICTION.

This appeal is from a decree, entered December 9, 1954, by a three-judge court (one judge dissenting) of the United States District Court for the District of Columbia (App. A; R. 1159), ordering modification of a final decree of that court entered May 15, 1951 (App. B; R. 562). The final decree of May 15, 1951 terminated an action, instituted by the United States August 15, 1940, against, among others, USG, National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Newark Plaster Company (Newark) and Ebsary Gypsum Company (Ebsary) under Sections 1, 2, 3 and 4 of the Sherman Act (Act of July 2, 1890, 26 Stat. 209, as amended; 15 U. S. C., Sections 1, 2, 3 and 4).

On March 25, April 22, May 15, June 3, and June 30, 1953, respectively, appellees National, Certain-teed, Newark, Ebsary and the United States filed separate petitions in the district court for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951.* On September 9, 1953, USG filed its answers to each of the pending petitions.** The decree of the district court in the proceeding on those petitions and answers thereto, entered without the taking of any evidence thereon, is the appealed-from decree of December 9, 1954. A motion for a new trial was filed December 20, 1954, by USG (R. 1160). That motion was denied June 30, 1955 (one judge dissenting), and notice of appeal was filed by USG in the district court August 26, 1955 (R. 1340).

USG filed its jurisdictional statement on October 24, 1955. Motions to affirm were filed by appellees National and Certain-teed November 22, 1955, and on December 12, 1955, USG filed its brief in opposition to such motions. On January 16, 1956, this Court noted probable jurisdiction (350 U. S. 946).

The jurisdiction of the Supreme Court to review the decree of December 9, 1954, by direct appeal is conferred by 28 U. S. C., Sections 1253 and 2101(b), and by 15 U. S. C. Section 29.

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* Natl. R. 604; Cert. R. 657; New. R. 666; Ebs. R. 669; U. S. R. 739. The petitions of the corporate appellees sought to have the 1951 decree amended to enjoin suits which USG had brought against National and Certain-teed in the federal court in Iowa and against Newark and Ebsary in the federal courts in New Jersey and New York (*infra*, pp. 12-16). As appears from the affidavit of Bruce Bromley filed with the Clerk of this Court February 10, 1956, appellees Newark and Ebsary and appellant USG, subsequent to the date this Court noted probable jurisdiction of this appeal, adjusted their controversies by the payment of certain sums by Newark and Ebsary to USG in settlement of the USG claims against them for use of its patents, and the USG suits against them were dismissed.

** USG's answers to Natl. R. 777; to Cert. R. 790; to New. R. 800; to Ebs. R. 805; to U. S., R. 810.

STATUTES AND RULES INVOLVED.

Federal Rules of Civil Procedure, Rule 8(a), (e) and (f), 35 U. S. C., Section 271, and 15 U. S. C., Sections 1, 2, 3 and 4 (Sherman Act) are set forth in the Appendix C, *infra*, at pages C1, C3 and C4, respectively.

QUESTIONS PRESENTED.

Where, after a civil antitrust suit in which a conspiracy to fix prices by means of patent licensing had been charged by the United States against USG and its co-defendant patent licensees, a final decree is entered against defendants, but that final decree does not bar and the Department of Justice does not oppose suits by USG in other federal district courts of competent jurisdiction to recover reasonable compensation for use made by others of USG patents prior to entry of the final decree:

(1) Would the mere filing of such suits by USG against the co-defendant patent licensees in the antitrust suit constitute a misuse of USG patents?

(2) Would the record in this case, including the issues joined by the 1953 petitions and answers thereto, permit adjudication, as a matter of law and without the taking of any evidence, of the issues of patent misuse or purge during all or any part of the period from February 1, 1948,* to entry on May 15, 1951, of the final decree?

(3) Would the final decree of May 15, 1951, expressly or by fair intendment, bar USG from suing

* February 1, 1948, is the earliest date from which USG claims compensation from the corporate appellees for use of its patents and is the approximate date on which the various corporate appellees stopped paying royalties to USG for their use of its patents. Those refusals to pay, according to the corporate appellees, were prompted by the entry on March 8, 1948, of the opinion of this Court in *United States* v. *United States Gypsum Co., et al.*, 333 U. S. 364, which decision voided the license agreements as asserted in the motions to affirm filed herein (Nat'l p. 3; Cert. p. 4).

for reasonable compensation on any theory for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951?

(4) Would the basic purposes of the final decree in the antitrust suit authorize modification of that decree to include a provision barring USG from suing for reasonable compensation for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951, and subsequent thereto?

(5) Would the district court have, or should it have taken, jurisdiction to entertain the 1953 petitions of the co-defendant patent licensees or to enjoin suits already commenced by USG against those co-defendants?

STATEMENT OF THE CASE.

This appeal involves primarily a post decree controversy between certain co-defendants in a civil antitrust suit brought by the United States over sixteen years ago and terminated by a final decree entered May 15, 1951.* The appeal presents the question whether USG shall be permitted to sue in courts of competent jurisdiction to recover from its co-defendants in the antitrust suit reasonable compensation for their use of USG patents.

USG has been engaged since 1901 in the production of gypsum and in the manufacture and sale in interstate commerce of gypsum products (1947 R. 6, 270-1). Gypsum products, including gypsum wallboard, gypsum lath, plasterboard and gypsum plaster, are widely used in the construction industry (1947 R. 3, 4, 266-7). In the 1926-1930 period, as part of an industrywide settlement of multiple suits for infringement of USG's board patents, the valid-

* The final decree of May 15, 1951 will sometimes hereinafter be referred to as the "1951 decree" or "1951 final decree" and the decree of November 7, 1949, which it supplanted, as the "1949 decree". The appealed from decree of December 9, 1954, will sometimes hereinafter be referred to as the "1954 amendment."

ity and infringement of which had been theretofore established,* agreements were signed in which USG licensed its patents in substantially identical terms (except for the portions providing for the damages payable by the licensee for past use of the patents, where the amounts differed according to the extent of infringement) to all companies then manufacturing gypsum board east of the Rocky Mountains. Those agreements reserved to USG the right to control its licensees' minimum prices and their terms and conditions of sale on all patented gypsum board manufactured and sold by them under the license agreements which, with USG's sales of such board, was substantially all gypsum board manufactured and sold in that area (1947 R. 4134-44 (Findings 8, 10, 12, 18, 19, 21); R. 39, 41-44 (Offer of Proof Nos. 12, 13, 19-22, 27-29, 36-40, 49)).

The Government Sues the Industry.

On August 15, 1940, the United States instituted in the court below a civil suit under the Sherman Act against USG, five other corporate defendants (including National, Certain-teed, Newark and Ebsary), and eight individual defendants. The complaint in that action charged the defendants with conspiring to restrain interstate commerce in gypsum board, gypsum plaster and miscellaneous gypsum products, and with monopolizing, attempting to monopolize and conspiring to monopolize such commerce in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1, 9-11).

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* *Bestwall Mfg. Co.* v. *United States Gypsum Co.*, 270 F. 542 (7th Cir. 1921); 290 F. 798 (7th Cir. 1923); *United States Gypsum Company* v. *Bestwall Mfg. Co., et al.*, 290 F. 800 (7th Cir. 1923), cert. denied, 263 U. S. 713 (1923); *United States Gypsum Co.* v. *Bestwall Mfg. Co.*, 15 F. 2d 704 (N. D. Ill. 1925); see also *United States* v. *United States Gypsum Co., et al.*, 67 F. Supp. 397, 405 (D. C. 1946); and Offer of Proof, Nos. 6, 9, 10 and 11, R. 37-38.

Defendants' answers joined issue on all allegations of wrong doing.* The Government presented its case in the period from November 15, 1943 to April 19, 1944, at the conclusion of which the defendants moved to dismiss under Rule 41(b) of the Federal Rules of Civil Procedure. On June 15, 1946, the district court rendered its opinion granting defendants' motions (67 F. Supp. 397), and on August 5, 1946 dismissed the complaint (1947 R. 4169).

In October Term 1947, this Court reversed the judgment of the district court dismissing the complaint at the close of the Government's case. In the opinion (333 U. S. 364, 389) this Court said that the industry-wide license agreements entered into by the corporate defendants in 1929

> "with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish a *prima facie* case of conspiracy."

The case was remanded to the district court.

On remand, the Government filed a motion for summary judgment under Rule 56, Federal Rules of Civil Procedure (R. 35). Defendants filed offers of proof negating the material facts of the complaint except the averments that the defendant companies had entered into license agreements, industry-wide in scope, with minimum price provisions which were adhered to by the parties, with knowledge of the adherence of others (R. 36-54, 56-57).

On June 29, 1948, the district court (Judge Stephens dissenting) ruled that the motion for summary judgment should be allowed (R. 138-140, 478). Thereafter the Government filed its proposed findings of fact and conclusions

* USG, 1947 R. 263; Nat. 1947 R. 214; Cert. 1947 R. 228; New. 1947 R. 296; Ebs. 1947 R. 164; Celotex 1947 R. 188.

of law and its proposed decree (R. 157), and the defendant companies filed objections thereto and made suggestions with respect to the form of findings, conclusions and decree to be entered.* Oral arguments were had before the district court on June 13 and 14, 1949, as to the findings and conclusions, if any, and the form of decree to be entered (R. 211-424), and on November 7, 1949, the district court entered its decree without other findings than those contained in the decree (R. 471).

After a preliminary statement, the 1949 decree found jurisdiction (Art. I); defined terms and listed certain license agreements between the defendant companies (Art. II); declared that the defendant companies "have acted in concert in restraint of trade * * * to fix, maintain and control the prices of gypsum board and have monopolized trade * * * in violation of sections 1 and 2 of the Sherman Antitrust Act" (Art. III); adjudged the license agreements listed therein unlawful under the antitrust laws and illegal, null and void (Art. IV); enjoined the defendant companies against enforcement or performance of the license agreements and against similar violations of the antitrust laws (Art. V); provided for limited compulsory licensing (Art. VI); provided that the decree should not affect anything permitted by Act of Congress (Art. VII); approved the forms of license agreements theretofore filed with the court by USG (Art. VIII); reserved limited jurisdiction of the cause (Art. IX) and provided for taxing costs (Art. X).

Both the Government and USG took direct appeals to this Court from the 1949 decree (R. 504, 509). USG appealed on the ground of its right to introduce material evidence. This Court dismissed that appeal (339 U. S.

* USG, R. 166; Cert. R. 194-5; New. R. 196; Natl. R. 197; Celotex R. 207; Ebs. R. 208.

959). The reason for the dismissal was later stated by this Court as follows:

> "* * * we read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defendants' proof by proffer. The trial judges understood the summary judgment to be, as Judge Stephens said, 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed United States Gypsum's appeal from the decree, and on that basis we examine the Government's objection to the decree" (340 U. S. 76, 88).

Probable jurisdiction was noted on the appeal of the Government (339 U. S. 960). In the order of May 29, 1950, noting probable jurisdiction, and for the same reason the USG appeal was dismissed, this Court affirmed Article III of the district court decree and enjoined the defendant companies, pending further order of this Court, from enforcing in any manner whatsoever the provisions of their license agreements fixing, maintaining or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof (339 U. S. 960). This Court's injunctive order of May 29, 1950 was continued in effect until the entry of the 1951 final decree (R. 514).

The issues for determination on the appeal of the Government had to do with an enlargement of the provisions

of the district court decree which this Court considered, granting some of the Government's requests and rejecting others. The approval by this Court of some of the Government's proposals made it necessary to reverse the decree of the district court and to remand the cause for further proceedings in conformity with the opinion of this Court (340 U. S. 76, 95).

After hearing argument for all parties and upon consideration of several forms of decree submitted to it by the parties* a decree was entered by the district court on May 15, 1951 (the 1951 decree, App. B; R. 562), which was approved as to form by plaintiff and defendants (R. 601). None of the parties appealed from that final decree.

The 1951 decree follows the general form of the 1949 decree which it replaced. The preliminary statement is in substantially the same form except for the added reference to the proceedings following the entry of the 1949 decree. Article I finds jurisdiction. Article II defines terms and lists certain license agreements between defendant companies. Article III (adjudicating Sherman Act violation as to gypsum board by the concerted action of defendant companies) and Article IV (declaring the listed license agreements illegal, null and void) are identical with Articles III and IV in the 1949 decree.

Article V enjoins the defendant companies and their respective officers, etc., from entering into or performing any agreement or understanding among them or other manufacturers of gypsum products to fix, maintain or stabilize prices or terms of conditions of sale of gypsum products "by patent license agreements or other acts or course of action," and specifically enjoins the carrying on of certain pricing and selling practices "pursuant to

* Gov.'s R. 515; USG's R. 523; Nat'l.'s R. 546; Cert.'s R. 553; hearing, May 15, 1951, R. 576.

such an agreement or understanding." Article VI contains provisions for compulsory licensing, at reasonable royalty, under USG patents or applications for patents relating to gypsum board, owned or controlled by USG or issued to or applied for or acquired by it within five years from the date of the decree. Article VII provides that the decree shall not affect anything permitted by Act of Congress; Article VIII gives the Department of Justice certain rights of investigation; Article IX assesses 50% of the costs among the defendant companies; and Article X contains a reservation of jurisdiction for the purpose of permitting application to the district court for such orders, etc. "as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

None of the proposed findings of fact, conclusions of law or decrees submitted to the district court by the Government or by the defendants in connection with either the 1949 decree or the unappealed 1951 final decree dealt in any way with the right of any person, co-conspirator or otherwise, to use USG patents without compensation during the period from the first Supreme Court opinion (333 U. S. 364, March 8, 1948) to entry of the 1951 final decree (R. 157, 166, 188, 194-205, 207, 208, 515, 523, 546, 553). Indeed, the amended complaint in the suit of the Government had included a prayer for an injunction against suits by any of the defendant companies for compensation or damages for unauthorized use of patents (1947 R. 346-7). However, the Government never requested that the court grant such relief, either in the proceedings leading to the formulation of the 1949 decree or the 1951 final decree (R. 213, 401, 576, 601). Nor did it include such a request in its 1950 appeal to this Court for enlargement of the relief granted (340 U. S. 76, 97-105). The prayer obviously was abandoned.

USG Sues Users of Its Patents.

On May 16, 1951, the day after entry of the 1951 final decree by the district court, USG wrote each of its co-defendant licensees saying that it intended to comply strictly with the provisions of the decree in every respect and, referring to the old license contracts, noted that all their provisions have "heretofore become and now are wholly cancelled and of no effect." In its letters USG also referred to the fact that royalties had not been paid under such agreements since early 1948, nor had USG sought to collect such royalties, but it had merely "stood upon our right to be compensated for the reasonable value of any use you may have made of our patents" (R. 784, 799).

None of the defendant licensees thereafter made any move to challenge this position before the court or otherwise. National and Certain-teed subsequently made applications, pursuant to the provisions of Article VI of the 1951 final decree, for licenses under certain patents of USG, which licenses were granted (R. 607, 662, 783). Those licenses were effective as of the date of the decree (May 15, 1951), and provided for royalty at 1% of the selling price of all gypsum board manufactured and sold thereunder embodying or made by the use of the inventions set forth and claimed in the licensed patents (R. 783).*

In letters from USG originally submitting a form of license to National and to Certain-teed pursuant to their respective applications therefor, and in letters transmitting the new licenses for final execution, and in letters acknowledging receipt of the first royalty payments thereunder, USG made it clear that nothing done in that connection

* This is the same royalty rate provided for in the old license agreements at the time the corporate appellees ceased paying royalties (R. 605, 648) and the same rate included in the revised licenses USG offered its licensees in 1949 (R. 449) and authorized by the district court in its decree of November 7, 1949 (R. 476).

shall be construed as a waiver or release of any claim USG may have against the licensee for any use which such licensee may have theretofore made of any USG patent (R. 784, 796, 799, 898-9, 902-4). National signed and returned its license without question; Certain-teed signed and returned its license "without recognition or acceptance of the existence or validity" of any such claim (R. 898-9, 902-4). Both companies paid the royalties provided for in the 1951 license contracts taken by them (R. 607, 662). Neither Newark nor Ebsary applied for a license under the 1951 final decree.

Certain patents included in the compulsory licensing provisions of the 1951 decree were fundamental, basic patents in the manufacture and sale of gypsum board. USG's co-defendants in the antitrust suit were using them at the time of this Court's opinion of March 8, 1948, and they continued such use thereafter without payment of compensation therefor (R. 52, 349, 607, 661-2, 788, 795, 1145-6, 1266, 1287-8, 1315).

When it became obvious that National, Certain-teed, Newark and Ebsary did not intend to pay for their use of USG's patents during the 1948-51 period, USG was faced with the alternative of bringing suits to recover or of forfeiting its claims.

Accordingly, on January 28, 1953, USG sued National in the United States District Court for the Northern District of Iowa; on January 30, 1953, it sued Newark in the United States District Court for the District of New Jersey; on February 28, 1953, it sued Ebsary in the United States District Court for the Southern District of New York; and on March 11, 1953, it sued Certain-teed in the United States District Court for the Northern District of Iowa (Nat'l. Complt. R. 614; Cert. Complt. R. 646; Newark Complt. R. 634; Ebsary Complt. R. 622).

When USG determined to sue, it chose to draft a complaint that would meet all factual situations that might develop upon the trial of the case. Thus, each complaint in those four suits contains a count for royalties due for actual use of the plaintiff's patents, based on the royalties provided for under the prior license agreement between USG and the respective defendants (Count I);* a count for such royalties due under such agreement, as amended (Count II); a count for recovery of reasonable compensation for the actual use of USG's patents after the license agreement was terminated and under circumstances from which the law would imply a promise to pay (Count III); a common count of *quantum meruit*, seeking recovery of reasonable value for use of USG patents (Count IV); and a count or counts for their infringement (Counts V, VI) (R. 604-654). Since the granting of licenses, both before and after the period covered by the respective complaints, had established, by arm's length negotiations, the reasonable value of the use of the patents at 1% of the purchase price of the product embodying or made by use of the patents licensed, and since recovery under each count was limited to board involving actual use of the patents, the *ad damnum* in the various counts was necessarily the same, except in the *quantum meruit* and infringement counts of the Newark and Ebsary suits (*i. e.* Counts III, IV, V, and VI), where a longer period of time was involved since those companies never took the licenses authorized by Article VI of the final decree, but continued,

* Actually this claim did not attempt to enforce the royalty provisions of the old licenses, which required royalty on all board manufactured and sold, whether or not patented or made by use of the patents. In Count I of its suits, USG claimed compensation only on board embodying or made by use of the USG patents, based on the royalty rate fixed in the licenses (*i. e.* 1%).

nonetheless, to use USG patents after the date of the final decree of May 15, 1951.*

Answers were filed by National and Certain-teed in their respective suits joining issue on all material averments and pleading specially, among other things, that each suit was barred by the 1951 final decree (R. 710, 725). Following the filing of the National and Certain-teed petitions in the court below, proceedings were stayed in the two suits in the Iowa court pending the outcome of the instant proceedings (R. 741, 748, 759, 766, 773).

Appellees Petition the District Court.

Commencing with the petition filed by National on March 25, 1953, each of the corporate appellees had by June 3, 1953, filed separate petitions in the court below. The petition of National sought an adjudication that the suit brought against it by USG for compensation for the actual use of USG patents between 1948 and 1951 was in violation of the 1951 final decree, and, in the alternative, urged that the 1951 decree be modified by an order compelling dismissal of the USG suit, with prejudice, and enjoining USG from instituting any other suit seeking compensation for the use of USG patents by National for any period of time prior to May 15, 1951 (R. 604).

The petition filed by Certain-teed on April 22, 1953, was substantially identical with that of National in its theory of and prayer for relief (R. 657). The two petitions filed May 15, 1953 and June 3, 1953, respectively, by Newark and Ebsary were also closely similar to the National petition, except that they also asked that the district court

* Substantial amounts are claimed by USG. Thus, it seeks to recover the amount of $1,600,000 from National and $650,000 from Certain-teed. It claimed $185,000 from Newark and $160,000 from Ebsary (Counts III, IV and V), with an additional claim in Count VI for infringement of still another patent.

bar USG claims for use of its patents in the period subsequent to May 15, 1951 (R. 666, 669).

At a preliminary hearing June 9, 1953, the corporate petitioners below assured the district court that they made no claim of any existing antitrust violation by USG, except as the filing by USG of its suits for reasonable compensation might be considered such a violation (R. 673, 699). USG raised questions as to the district court's jurisdiction, and the court thereupon set time for all parties to file briefs as to jurisdiction and other questions with respect to the petitions (R. 684-5, 690-2, 704-7). At this hearing the Government stated that it had not as yet concluded what, if any, action it would take as to the petitions, and it was granted until June 30 to file such statement as it might determine to make (R. 683-4, 701).

On June 30, 1953, the United States filed its petition asking that the district court hold as barred by the 1951 final decree any recovery by USG in its compensation suits that was based on the license agreements that were adjudged illegal, null and void by Article IV of such decree. However, the petition of the United States expressly stated that in so far as any compensation suits by USG asserted claims for the reasonable value of the use of the USG patents or for due compensation for the infringement of such patents (being Counts III, IV and V in the National and Certain-teed suits), the United States took no position as to whether such alternative claims were barred by the 1951 final decree, or as to whether the district court should enter an order enjoining USG from prosecuting such alternative claims (R. 739-740).

On September 9, 1953, USG filed its answers to each of the pending petitions, putting in issue those allegations upon which relief was claimed, and averring additional facts as affirmative defenses (R. 777, 790, 800, 805, 810).

Pursuant to the court's order of June 9, 1953, briefs were filed by the parties in support of and in opposition to the petitions (Natl. R. 775; Cert. R. 774; USG, R. 812; U. S. R. 814), and an oral argument was had on January 12 and 13, 1954 (R. 819, 901).

On July 6, 1954, the district court, one judge dissenting, filed an opinion, ruling, among other things, that further prosecution of the USG suits should be enjoined (R. 975, 1015). On December 9, 1954, the district court, without having taken any evidence on the factual issues raised by the 1953 petitions and the answers of USG thereto, entered a decree, amending the 1951 final decree by adding to it a paragraph directing USG to dismiss, with prejudice, its pending actions against the four corporate petitioners (R. 1159).*

The basis of the district court decree of December 9, 1954, modifying the final judgment of May 15, 1951, may be rather simply stated. First, the court noted that in the USG compensation suits against the corporate appellees, Counts I and II are based, directly or indirectly, upon the terms of the license agreements invalidated by the 1951 decree; that Count III is a common count of *indebitatus assumpsit,* upon a pleaded express contract, the terms of which are so stated as to bring about recoveries identical with those that would be accorded by action on the invalidated agreements (notwithstanding repeated statements

* The three-judge court which had entered the final decree of May 15, 1951, had consisted of Judge Harold M. Stephens, Judge Finis J. Garrett and Judge Joseph R. Jackson (R. 562, 572). On May 7, 1953, Judge William P. Cole replaced Judge Jackson on the three-judge court, and, on December 1, 1953, Judges Stephens and Garrett resigned, to be replaced, respectively, by Judge Kimbrough Stone and Judge Eugene Worley (R. 669, 817, 818). Thus, the personnel of the three-judge court that entered the decree of modification on December 9, 1954, was entirely different from that which had heard the case originally and had entered the 1949 decree and the 1951 final decree.

by USG that the count was a *quantum meruit* count for recovery of reasonable compensation for use of the patents after rescission of the agreements and under circumstances from which a promise to pay would be implied by law (R. 689, 904-5, 973, 1045, 1185-6, 1258-9, 1320)); that Count IV is for *quantum meruit* for use by defendants of USG's patents; and that Counts V and VI allege infringement of USG's patents (Findings 27-30, R. 1153). Second, the district court recognized that the corporate appellees had based their petitions (a) upon the terms of the 1951 decree; (b) or, if that decree did not prohibit the USG suits against them, then upon a theory of misuse of patents; and (c) upon a plea to prevent a multiplicity of action (Finding 36; R. 1154). And, finally, the district court premised that if in, or after, the period for which USG sought compensation, USG had misused its patents, prosecution of the compensation suits would weaken the decree and should be barred by amendment thereof (Conclusion 13; R. 1157).

After making the observations set forth above, the district court then reasoned that inasmuch as Article IV of the final decree had nullified the license agreements upon which USG had bottomed Counts I and II of its complaints, USG should be enjoined from prosecuting those Counts (Conclusion 7; R. 1156).

But the district court also concluded that Article IV of the final decree

> "did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such." (Conclusion 7; R. 1156.)

Despite its conclusion that the final decree of May 15, 1951, did not proscribe recovery under those three additional legal theories, the district court nonetheless modified

that final decree to require such proscription. Thus, it disposed of the *indebitatus assumpsit* counts (*i. e.* the Count III *quantum meruit* count) as

> "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements" (Conclusion 14; R. 1157-58).*

It disposed of the *quantum meruit* counts (*i. e.* the Count IV common count) on the ground that

> "The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is a clear misuse of its patents (and) * * * the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents * * * is shown, as a matter of law to exist and not to have been purged" (Conclusions 13, 15; R. 1157, 1158).

Prosecution of the USG suits in so far as they were based on patent infringement was enjoined

> "both because of the practical and legal situation in the case, and also, [because of] the teaching in the *Hartford-Empire* case" (Conclusion 16; R. 1158).

This appeal was taken following the filing of the USG motion for new trial and its Points and Authorities in support thereof (R. 1160, 1163), the corporate appellees' statements in opposition thereto (R. 1193), the USG reply to such statements (R. 1208), oral argument on the motion (R. 1214) and the denial of the motion by the district court (one judge dissenting) on June 30, 1955 (R. 1335).

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* The district court in its Conclusion 14, as well as in its Finding 28 that Count III was upon a pleaded express contract the terms of which were so stated as to bring about identical recoveries with those that would be accorded by action upon the invalidated agreements, apparently overlooked the fact that Count III expressly avers a rescission of the old license contracts and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license contracts.

SUMMARY OF ARGUMENT.

I.

The USG suits seeking compensation for use of its patents were brought in 1953 in federal courts having jurisdiction by reason of diversity of citizenship and federal statutes authorizing infringement suits. A final decree had been entered in this case in 1951, which did not, however, deal with the right of USG to such compensation during the 1948-1951 period. The court below superimposed its jurisdiction and amended the 1951 final decree to compel USG to dismiss, with prejudice, its pending suits.

The district court did not have, or should not have taken, jurisdiction to so amend the 1951 decree, either under the reservation of jurisdiction (Art. X) to enter orders construing or carrying out the decree or enforcing compliance or under the court's inherent power to amend. Being a final decree in a Government antitrust suit, designed to prevent future Sherman Act violations, neither Article X nor the court's inherent power to amend, can justify enlargement of the decree to dispose of private controversies subsequently arising between co-defendants as to compensation for use of USG patents, which controversies are unrelated to the basic purposes of the 1951 decree.

The Government, as sole plaintiff and spokesman for the public interest, alone may seek such relief. Here the Government does not question the right of USG to seek a *quantum meruit* or infringement recovery (*i.e.* Counts III, IV, V and VI of its pending suits); it does not contend that assertion of such claims is violative of the 1951 decree or in conflict with its basic purposes.

The court below did not acquire paramount jurisdiction

over the present controversy because of its entry of the antitrust decree. Nor is jurisdiction justified to avoid a multiplicity of suits where, as here, application of the rule is premised upon the erroneous view that patent misuse exists, as a matter of law, because of the USG compensation suits. Facts warranting jurisdiction to avoid multiplicity of suits are not here present. It is immaterial that another federal court may construe the 1951 decree. Issues of patent misuse and purge often arise in courts other than the one which entered the antitrust decree.

II.

The district court's ruling that there was continuing misuse of USG patents, which required the 1954 amendment to compel USG to dismiss its pending suits, was not, and could not have been, based on any evidence of the factual situation in the 1948-1951 period. Evidence in the antitrust suit did not go beyond 1941; and no evidence was received on the misuse and purge issues raised by the 1953 petitions and answers thereto. The ruling was not based on any claim that USG is now using its patents to fix prices or monopolize trade. There admittedly was no claim of any existing antitrust violation by USG. USG had not fixed prices under its licenses since July 8, 1941.

The continued-misuse-as-a-matter-of-law ruling is premised on the fact that USG, in stating its compensation claims, included, along with *quantum meruit* and infringement counts, two counts based upon the royalty provisions of the invalidated license agreements. The lower court considered inclusion of these two counts a misuse of patents, defeating recovery on any theory.

Such a ruling is not supported by any authority. It conflicts with the ruling of this Court in *Hartford-Empire Company* v. *United States*, 323 U. S. 386 (1945); 324 U. S.

570 (1945). There, although the patents were illegally licensed, this Court ordered the district court to supervise turnover to Hartford-Empire of royalties collected by a court receiver *pendente lite* under its license agreements, unless Hartford had violated the antitrust laws in that period so as to disqualify it from compensation for use of its patents. This Court did not regard such assertion of claims for royalties as patent misuse in violation of the antitrust laws, and under direction of the district court, the matter was ultimately settled, Hartford receiving a substantial part of the royalties so collected.

The lower court's misuse ruling also transcends the concept of federal pleading stated in Rule 8 of the Federal Rules of Civil Procedure. In federal pleading, alternate statements of claims, regardless of consistency, may be made in one or more separate counts. Whether stated in separate counts or as a simple statement of events, the final theory of recovery is for the court rather than the pleader. The district court considered the mere pleading of claims based on the invalidated licenses (*i.e.*, Counts I and II) as a misuse of patents preventing recovery on any theory.

The misuse ruling conflicts with the public policy established by the recent patent law codification and with appellant's reserved rights in the 1951 decree (Art. VII). 35 U. S. C. Section 271(d) provides that no patent owner otherwise entitled to relief for infringement shall be denied relief or be deemed guilty of patent misuse by reason of his having sought to enforce his patent rights against infringement. Since mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit for infringement which pleads other counts, including one for royalty based on a license (which, among other things, is a grant of immunity from infringement) cannot itself constitute patent misuse. The point is not avoided by the district court's circuitous reasoning as to the words "otherwise

entitled". Whether or not USG is "otherwise entitled" to recover cannot be known until issues joined in the Iowa suits have been heard and determined. That question cannot be decided in the summary manner adopted below.

III.

The district court erroneously decided the issues of misuse and purge during the 1948-1951 period without receipt of any evidence. Those issues involve a factual inquiry and cannot be decided preliminarily, as a matter of law and without a hearing on pertinent facts at issue.

The summary disposition of those issues also ignores the facts that the record here was compiled over twelve years ago; that the evidence supporting antitrust violation did not extend beyond the year 1941; that there has been no price fixing under the licenses since July 8, 1941; that the pertinent period in the USG suits is from February 1948 to May 15, 1951; and that the 1953 petitions and answers thereto, as well as the USG pending suits in the Iowa court, join misuse and purge issues on which no opportunity has ever been given for proof. There is no presumption in law of the continuance of illegal conduct.

The district court misconstrued USG's contentions regarding certain purging facts already in the record. The burden was upon the petitioners to establish by evidence actual misuse of USG patents in the 1948-1951 period, whereupon USG would have the right to introduce evidence showing purge. Understanding these issues would be subject to proof, USG nevertheless referred to certain facts of record (for illustrative purposes and not as the only facts of purge) which would preclude a conclusion against USG as a matter of law, and even resolve the purge issue in its favor (*i. e.* nonuse of the price provisions since July 8, 1941; rescission of the licenses by act of the

parties in 1948; offer by USG in 1949 of new licenses avoiding all objectionable provisions; purging effect of the 1949 decree adjudicating the licenses unlawful and enjoining their performance and of this Court's injunctive order of May 29, 1950). The court's rejection of these purging facts and their cumulative effect, and its treatment of them as the only purge evidence, was erroneous and inequitable. They are certainly sufficient to prevent a summary judgment of non-purge, which is the effect of the lower court's ruling.

The doctrine of patent misuse and purge is of relatively recent development, having its genesis in the decisions of this Court. The district court's ruling highlights the need for a clarification by this Court of the procedure for determining such issues, as well as the extent of the doctrine.

IV.

It is axiomatic that an injunction must be precise and specific; that the effect of a decree, as an adjudication upon parties, is determined by the issues actually presented and decided; and that a court may not under the guise of construction add new substantive provisions which were omitted or withheld in the first instance.

These principles require the conclusion that the 1951 decree did not and was not intended to bar USG from seeking compensation for use of its patents in the 1948-1951 period, and that the 1954 amendment to compel dismissal of the USG suits was wholly unwarranted.

There is no injunctive provision in the 1951 decree prohibiting such a suit. In fact, the compulsory licensing provisions require payment of reasonable compensation for use of the patents. While the Government contends that Article IV, declaring the licenses illegal, is sufficient to bar a count based on those licenses, it does not claim

that Article IV operates as a bar to *quantum meruit* or infringement claims. The lower court concedes that Article IV does not, either expressly or by fair implication, cover such claims.

Any modification of the 1951 decree must be in accord with its basic purposes. This being originally a Government antitrust suit for Sherman Act violation, the basic purposes of the decree were to give adequate relief to prevent future violations through license agreements or other concerted actions. It is not suggested that the decree has failed in any way to do so. The district court's action in enjoining the pending suits does not effectuate the purposes of the decree, but improperly injects into the decree a subject matter of a purely private nature. The 1954 amendment creates new "rights" in the co-conspirator licensees. It permits them to grab the reins in a Government antitrust suit and amend the 1951 decree to protect and enforce their spurious private "rights" thus created.

The 1954 modification also violates the principle that rendition of a judgment does not conclude parties who are not adversaries under the pleadings as to their rights *inter se* upon matters they did not litigate or have an opportunity to litigate between themselves. No issues were presented to the district court, prior to the 1953 petitions and answers, as to the right of USG to recover for use of its patents *pendente lite.*

The appealed-from decree of September 9, 1954, is unsupportable as a proper exercise either of the court's inherent powers to amend or of the limited reservation of jurisdiction in Article X.

ARGUMENT.

I.

THE DISTRICT COURT ERRED IN ASSUMING JURISDICTION TO ENTERTAIN THE 1953 PETITIONS AND ENJOIN THE SUITS THERETOFORE COMMENCED BY USG IN OTHER FEDERAL COURTS OF COMPETENT JURISDICTION.

At the threshold, a question is presented as to the jurisdiction of the district court to entertain the petitions for modification of the 1951 final decree, either under the reservation contained in Article X (App. B, p. B 12) of that decree or under its inherent power of a court of equity.* Assuming, *arguendo*, that there was jurisdiction to entertain some part or all of the matters presented by the petitions filed below, there is the further question as to whether such jurisdiction should have been exercised to decide the misuse and purge issues and to compel dismissal with prejudice of the USG suits in other federal courts.

USG brought its suits against National and Certain-teed for compensation for their use of USG patents in the United States District Court for the Northern District of Iowa, where USG, National and Certain-teed have operated plants producing gypsum board for many years. It is a district in which National and Certain-teed produced gypsum board under their old 1929 license agreements, under their new license agreements taken under the 1951 decree, and in the intervening 1948-51 period during which time they did not pay USG for such use of its patents (R.

* Judge Cole dissented in the court below for the reason that the petitions "should be dismissed for lack of jurisdiction" (R. 1158, 1160, 1335).

607, 661-2, 788, 795, 1145-6, 1266, 1315). Clearly the Iowa federal court is one of competent jurisdiction and an appropriate forum for determining the issues raised by the USG complaints and the answers thereto filed by the respective defendants. Jurisdiction is expressly founded upon diversity of citizenship and upon the federal statutes authorizing patent infringement suits (28 U. S. C., Sections 1332, 1338, 1391, and 1400).

The corporate appellees nevertheless filed below their respective petitions for orders, modifications or directions "for the enforcement, construction or carrying out of the final decree of May 15, 1951." Those petitions purport to be brought pursuant to the reserved jurisdiction contained in Article X of the 1951 final decree (R. 604-5, 658). In reality, however, the "relief" they seek is not "for the construction or carrying out" of the decree or "for the enforcement of compliance therewith." Rather, it is to obtain an implementation of the decree by including additional restraints against USG so as to insulate the corporate appellees against claims for their use of USG's patents, for which they have not paid.* Appellant contends that the successful effort of the corporate appellees in the court below to have the final decree modified to adjudicate private rights as between USG and its co-defendant licensees is beyond the court's jurisdiction, either under the Article X reservation or under the inherent power of a court of equity subsequently to amend its decrees.

* The briefs of National and Certain-teed filed in the district court in support of their petitions clearly show that what they sought was an implementation of the 1951 decree to avoid the USG suits against them (Cert. R. 774-5; Natl. R. 775-6). As shown elsewhere in this brief (*supra*, pp. 69-74) it is no part of the basic purposes of the 1951 decree to punish USG by confiscating its patents, in whole or in part, or to reward the licensee defendants by giving them free use of valuable patent rights of USG for any period of time.

(a) While Article X (App. B, p. B12) has its counterpart in other antitrust decrees,* it is a more limited reservation of jurisdiction than similar provisions in other cases. Thus many decrees expressly reserve jurisdiction to grant other and further relief,** or to "amend" or "modify" or "enlarge" the provisions thereof.***

Obviously Article X of the 1951 decree does not reserve jurisdiction to modify the decree by enlarging its prohibitions as is done by the 1954 amendment. Such action

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* For example, *U. S.* v. *National Lead Co.*, 63 F. Supp. 513, 535 (S. D. N. Y. 1945); *U. S.* v. *Union Pacific Ry. Co.* (D. Utah 1911) Decrees and Judgments in Federal Anti-Trust Cases, p. 229; *U. S.* v. *Great Lakes Towing Co.* (N. D. Ohio 1915) Decrees and Judgments in Federal Anti-Trust Cases, pp. 257-8; *U. S.* v. *Cleveland Stone Co.* (N. D. Ohio 1916) Decrees and Judgments in Federal Anti-Trust Cases, p. 420.

** *U. S.* v. *Imperial Chemical Industries*, 105 F. Supp. 215, 220 (S. D. N. Y. 1952) ("to either modify the relief granted or to grant such other or additional relief required to accomplish the purpose of the decree * * *"); *Sugar Institute* v. *U. S.*, 297 U. S. 553, 605 (1936) ("for the purpose of '* * * enlarging or modifying its terms'."); *U. S.* v. *Paramount Pictures*, 70 F. Supp. 53, 76 (S. D. N. Y. 1947) ("for other or further relief."); *U. S.* v. *Hartford-Empire Co.* (N. D. Ohio 1946) ("for a modification of the judgment to provide for further relief against or for the dissolution of Hartford-Empire Company, or for modification of this judgment in any manner, if it should appear that the operation of its terms is failing to bring about a correction of the violations of the federal antitrust laws which are the basis of this judgment"). See also *U. S.* v. *Kosher Butchers' Assn. of Los Angeles* (S. D. Cal. 1955), 1955 Trade Cases 67,988 (para. X); *U. S.* v. *Columbia Artists Management, Inc.* (S. D. N. Y. 1955), 1955 Trade Cases 68,173 (para. VII); *U. S.* v. *National Automotive Parts Assn.* (E. D. Mich. 1954), 1954 Trade Cases 67,749 (para. VII); and *U. S.* v. *Blaw-Knox Co.* (W. D. Pa. 1954), 1954 Trade Cases 67,750 (para. X). See also decrees in Decrees & Judgments in Federal Anti-Trust Cases, pp. 113, 262, 309, 331, 376, 403, 415.

*** See final decrees in *Lorain Journal* v. *U. S.*, 342 U. S. 143, 159 (1951) (para. VII); *U. S.* v. *American Can Co.* (N. D. Cal. 1950), 1950-51 Trade Cases 62,679 (para. XI); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,724 (para. XII). The following are representative of the more than 100 consent decrees entered in the last five years containing such provisions: *U. S.* v. *International Business Machines Corp.* (S. D.

therefore conflicts with *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3 (1927), where this Court unanimously affirmed dismissal of a supplemental petition by the Government to enlarge the injunctive provisions of a decree theretofore entered by substituting, for a requirement of that previous decree that the company be divided into separate and distinct corporations, a new requirement that the company limit its sales agency in any city to a single representative and sell three of its harvesting machine lines to independent manufacturers of agricultural implements. This Court held that such an action would be repugnant to the decree upon which defendant had in good faith relied for many years.

(b) The limitation laid down in *International Harvester* undoubtedly accounts for the practice often followed of including an express reservation of jurisdiction to "modify" the decree. But even where there is an express reservation of jurisdiction subsequently to "modify" a decree, it is clearly established that the power to modify is not unlimited. Such a reservation is subject to the same limitation as applies where the court is exercising its inherent power to amend. It may only be exercised to the end of effectuating the basic purposes of the original decree. *Chrysler Corporation* v. *United States*, 316 U. S. 556, 562 (1942); *Hughes* v. *United States*, 342 U. S. 353, 357 (1952). The 1954 amendment does not serve to effectuate the basic purposes of the 1951 decree (*infra*, Point IV, pp. 69-74), and therefore cannot be sustained as a

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N. Y. 1956), 1956 Trade Cases 68,245 (para. XIX); *U. S.* v. *Western Electric Co., Inc., et al.* (D. N. J. 1956), 1956 Trade Cases 68,246 (para. XVII); *U. S.* v. *Hilton Hotels Corp.* (N. D. Ill. E. D. 1956), 1956 Trade Cases 68,253 (para. VIII); *U. S.* v. *General Mills, Inc.* (D. Mich. 1955), 1955 Trade Cases 67,979 (para. X), 68,118 (para. IX); *U. S.* v. *Pittsburgh Crushed Steel Co.* (D. Ohio 1954), 1954 Trade Cases 67,892 (para. XIX). See 1952, 1953, 1954, 1955, 1956 Trade Cases.

proper exercise of jurisdiction under the court's inherent power to amend.

(c) It is clear that only the Government is entitled to seek to enforce an antitrust decree in the manner sought by the corporate appellees. In *Buckeye Co.* v. *Hocking Valley Co.*, 269 U. S. 42 (1925) this Court considered the right of a party, other than the Government, to attempt to enforce an antitrust decree. In affirming the denial of an intervening petition subsequently brought, this Court said (pp. 48-49):

> "Third, even if we assume that the United States might apply under the reservation clause to the District Court to direct the cancellation of the mortgage lien on the coal lands and the covenant as to the royalty, on a showing that they were being used to continue the illegal combination condemned in the main decree, it could only be done in the interest of the public represented by the United States. The petition of the United States on this head was denied by the court below, and the United States has taken no appeal. The status of the two coal companies in the court below and here is merely that of informers. Their attitude, if it is nicely analyzed, seems to be, that unless the mortgage lien on their coal lands to secure the railway bonds, and the 2 cents royalty, are cancelled, they may be induced to enter a conspiracy with the Railway Company by which the Railway Company will grant them unlawful and discriminating favors in railway transportation to enable them to increase the coal mined and the royalty to be applied to redeem the bonds. They wish to have this temptation to crime on their part removed, and incidentally have themselves relieved from obligations which were recognized by the court as valid and binding in the judicial sale of the entire capital stock of the Buckeye Company, and which, as against them have been adjudged valid by the courts of Ohio. The United States, which must alone speak for the public interest, does not appear

with them on this appeal. They have therefore no *locus standi. United States* v. *Northern Securities Co.*, 128 Fed. 868."

This doctrine has often been applied where private parties have attempted to modify or enforce a decree in antitrust suits brought by the United States. *United States* v. *Bendix Home Appliances*, 10 F. R. D. 73, 75 (S. D. N. Y. 1949); *United States* v. *General Electric Co.*, 95 F. Supp. 165 (D. N. J. 1950); *United States* v. *R.C.A.*, 3 F. Supp. 23 (D. Del. 1933); *United States* v. *Columbia Gas & Electric Co.*, 27 F. Supp. 116, 119 (D. Del. 1939); *United States* v. *Northern Securities Co.*, 128 Fed. 808, 813 (S. D. Minn. 1904). In the *Bendix Home Appliances* case the court said (10 F.R.D., p. 75):

> "Analysis of the petition reveals that there is only one immediate end which the petitioners truly seek to attain—the restraint of the suits now pending in the municipal courts of the City of New York for the recovery of past due royalties. There is not the slightest suggestion that they are subjected to the effects of the unlawful conduct condemned by the decree other than by the prosecution of these suits."

In the instant case the Government has limited its interest in the matter to questioning the propriety of the prosecution of the counts based upon the license agreements which have been declared illegal, null and void by the 1951 decree. There is no dispute between the Government and USG as to the *quantum meruit** and infringement claims not being in violation of the 1951 decree or in conflict with its basic purposes. On this all important part of their contentions, then, the corporate appellees are in the position of seeking, without the support of the Govern-

* Reference herein to the *"quantum meruit"* claims or counts includes both Count III, designated by the lower court as an *indebitatus assumpsit* count, and Count IV of the pending USG suits.

ment, to "enforce" the decree by modifying it in a manner which inures greatly to their financial benefit. It is an attempt to inject into the case a private controversy between co-defendants in the prior action. Under the authorities, such an attempt should be rejected. As was said in *Columbia Gas & Electric, supra,* (27 F. Supp. at p. 119):

> "Petitioner has no right to encumber the main action which is being conducted by the Attorney General with extraneous issues of a private nature."

(d) Jurisdiction may not properly be based on the theory that the court in which the antitrust action was tried thereby acquired some paramount jurisdiction over the controversy arising out of the corporate appellees' use of USG patents (R. 610-11, 664, 667, 671). Such a contention is answered by this Court's disposition of a similar claim in *Aluminum Company* v. *United States,* 302 U. S. 230 (1937). There, following an antitrust proceeding and decree in Pennsylvania, a second suit was brought by the Government in New York. After a hearing, the New York court dismissed Alcoa's petition for an injunction against prosecution of the New York suit. In affirming, this Court recognized that if the subject matter were identical, the federal court first acquiring jurisdiction might enjoin proceedings in the second court, but, holding that the facts did not warrant such action there, said (pp. 232-233):

> "Plainly, and there is no suggestion to the contrary, appellant cannot succeed unless the Pennsylvania and New York suits are substantially identical in subject matter and issues. • • •
>
> "The court below found: 'The subject matter parties, issues and relief sought in the New York suit differ substantially from those in the 1912 suit. • • •' It concluded that the two suits were dissimilar in respect of parties defendant, subject matter, issues

and relief sought, and that no basis for an injunction had been shown.

"We have heard counsel, examined the record and briefs, and are unable to say that the court below erred either in respect of its findings or conclusion."

In this case there are marked differences between the parties and the issues in the several cases. This was a Government suit against the defendant companies and certain of their officers for violation of the Sherman Act; the case centered on the concerted action of the defendant companies; and no issues were joined as between co-defendants. In each USG suit, issues are solely between USG, as plaintiff, and the single defendant in the suit as to use by such defendant of USG patents and the proper compensation to be paid for such use. The differences as between parties, issues and relief sought here are infinitely greater than in the *Aluminum* case.

(e) Finally, assumption of jurisdiction by the court below cannot be justified on the grounds of avoiding a multiplicity of suits or avoiding conflicting judgments of several courts. Appellant does not contest either of these traditional grounds for equitable jurisdiction. However, here the district court's reason for assuming jurisdiction to avoid multiplicity of suits was expressly premised upon its ruling, erroneous as will be later demonstrated (Point II, *infra*, pp. 36-47), that misuse of patents was shown to exist, as a matter of law, by reason of the USG suits for compensation for use of its patents (Conclusions 13, 15; R. 1157-8).

There is also absent here the factual situation usually found where jurisdiction is taken to avoid multiplicity of suits. Thus the Iowa suits against National and Certain-teed have been and undoubtedly will continue to be treated together or consolidated by the Iowa court (R. 741, 748, 759, 766, 773). The sole judge in the United States District

Court for the Northern District of Iowa (28 U. S. C. 133) can hardly be expected to rule in a conflicting manner on these issues in the National and Certain-teed suits. At the time the court below assumed jurisdiction, issue was not joined in the Newark and Ebsary suits (R. 1308), and as shown, those suits have since been settled and dismissed. The risk of conflicting judgments was entirely too speculative a basis for the district court to assume jurisdiction.

It is quite immaterial that other federal courts may have occasion to construe the 1951 final decree. *Northern Securities Co.* v. *United States,* 193 U. S. 197 (1904); *Harriman* v. *Northern Securities Co.,* 197 U. S. 244 (1905); *Standard Oil Co.* v. *Markham,* 64 F. Supp. 656 (S. D. N. Y. 1945; modified and affirmed, 163 F. 2d 917 (2d Cir. 1947) cert. denied 333 U. S. 873; *Aluminum Company* v. *United States,* 302 U. S. 230 (1937).* The defense of unclean hands because of patent misuse and the issue of purging need not be, and normally are not, decided by the same court in which a prior antitrust decree was entered. In

* It is a common occurrence under 15 U. S. C. 16 for one federal court to construe an anti-trust decree of another federal court. In *Emich Motors Corp.* v. *General Motors Corp.,* 340 U. S. 558 (1951), a federal court in Illinois was called upon to construe such a decree of a federal court in Indiana. The final decrees of a federal court in New York in the motion picture cases (*United States* v. *Paramount Pictures, Inc., et al.,* 1948-49 Trade Cases 62,377; *United States* v. *Loew's Inc., et al.,* 1950-51 Trade Cases 62,573) have been construed by federal courts, among others, in California (*Fanchon & Marco* v. *Paramount Pictures,* 100 F. Supp. 84 (D. Calif. 1951), cert. denied 345 U. S. 964); Colorado (*Loew's Inc.* v. *Cinema Amusements, Inc.,* 210 F. 2d 86 (10th Cir. 1954)); Illinois (*De Luxe Theatre Corp.* v. *Balaban & Katz Corp.,* 95 F. Supp. 983 (N. D. Ill. 1951)); Louisiana (*Don George, Inc.* v. *Paramount Pictures,* 111 F. Supp. 458 (D. La. 1951)); Maryland (*Theatre Enterprises* v. *Paramount,* 346 U. S. 537 (1954)); Minnesota (*Homewood Theatre* v. *Loew's, Inc.,* 110 F. Supp. 398 (D. Minn. 1952)); Missouri (*Twentieth Century-Fox Corp.* v. *Brookside Th. Corp.,* 194 F. 2d 846 (8th Cir. 1952), cert. denied 343 U. S. 942); Utah (*Christensen* v. *Paramount Pictures,* 95 F. Supp. 446 (D. Utah 1951)).

Standard Oil Co. v. *Markham, supra,* where a New York federal court construed an earlier antitrust decree of a New Jersey federal court, the Court of Appeals said (163 F. 2d at p. 934):

> "* * * The District Court seems, however, to have rested its refusal to act upon some feeling of comity or unwillingness to interfere with the acts of the court which had entered the consent decree * * *; it was familiar with all details of this complicated question, which had never been before the court in New Jersey in its present and true setting. It [the New York federal court] was the court properly fitted to make the decision."

In *United States* v. *Bendix Home Appliances,* 10 F. R. D. 73 (S. D. N. Y. 1949) the court that had entered an antitrust decree said (p. 77):

> "I do not see why the adjudication of that defense [misuse] should confront the municipal courts of New York with any greater difficulty than that presented by any other written instrument."

See also *United States* v. *Libbey-Owens-Ford Glass Co.* (N. D. Ohio 1955) 1955 Trade Cases 68,207 (p. 70,973).

The court erred in superimposing its jurisdiction and amending the 1951 decree to summarily dispose of the pending USG suits in other federal courts of competent jurisdiction.*

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* The district court's findings of fact and conclusions of law, which are erroneous in the light of the arguments in the foregoing Point I and the subsequent Points II, III and IV of this brief, and which appellant seeks to have set aside, are specified in the USG Motion for New Trial (R. 1161-2) and in its Points and Authorities in support thereof (R. 1163, 1190-1) filed in the court below. With few exceptions, this covers appellant's specification of errors in the findings and conclusions and will not be hereinafter reiterated.

II.

THE DISTRICT COURT ERRED IN HOLDING THAT THE FILING OF THE USG SUITS AGAINST ITS CO-DEFENDANT LICENSEES IN THE ANTITRUST CASE TO RECOVER REASONABLE COMPENSATION FOR THE USE OF ITS PATENTS CONSTITUTES A MISUSE OF USG'S PATENTS.

The district court has erroneously held that a continuing unpurged misuse of USG patents exists, as a matter of law, because USG has sought compensation from the corporate appellees for their use of its patents in the years 1948-1951. On the basis of that holding, the district court has concluded that USG should be compelled to dismiss all counts of its pending suits with prejudice.

That determination was not and can not be based on any evidence as to the factual situation existing during the 1948-1951 period. Not only did the evidence in the original antitrust proceeding stop with the year 1941, but no evidence has been received by the district court on the issues of patent misuse and purge raised by the 1953 petitions and USG's answers thereto.

Nor can this determination be based upon any claim that USG is now using its patents to fix prices or monopolize trade in the gypsum industry by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agreements. In fact, USG has not fixed prices under its licenses since July 8, 1941 (1947 R. 4143; R. 789, 1150). Moreover, during a substantial part of the 1948-1951 period USG and the corporate appellees were all effectively restrained by injunctive orders of the district court and of this Court against any misuse of patents by operation under the price provisions of the old license agreements or otherwise. No suggestion has been made that any of such injunctive provisions was violated in any

manner. Indeed, at the June 9, 1953 hearing the corporate appellees assured the district court that no claim of any existing antitrust violation by USG was being made, except as the filing of the suits might be considered such a violation (R. 699).

That the district court concluded that the mere pleading by USG of Counts I and II of its complaints in the compensation suits constituted a misuse of patents warranting its amendment of the 1951 final decree is amply borne out by its opinion of July 6, 1954, and by its findings and conclusions of December 9, 1954.

Thus, in its opinion of July 6, 1954, the district court observed (R. 1014-15):

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
> "We think such an attempt is clear misuse of its patents.* * *"

In its findings and conclusions of December 9, 1954, the district court concluded (R. 1157):

> "The course of conduct of USG, * * * must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree" (Conclusion 13).

Thus it is clear that the district court's amendment of the 1951 decree is premised upon the erroneous view that prosecution of the USG compensation suits constituted a misuse of its patents. That conclusion is not supported by any precedent, and it puts the decision of the district

court in conflict with (a) the rulings of this Court in the *Hartford-Empire* case*; (b) the requirements of the *Federal Rules of Civil Procedure,* particularly Rule 8 thereof; and (c) the provisions of 35 U. S. C., Sec. 271(d).

(a) This Court in *Hartford-Empire* recognized that it is not a violation *per se* of the anti-trust laws for a patentee that has illegally licensed its patents to seek reasonable compensation for use of those patents during the pendency of antitrust litigation. Thus, in its first opinion in the *Hartford-Empire* case (323 U. S. 386, 411), this Court directed that Hartford-Empire be paid those royalties that during the pendency of that case would have gone to it under the terms of its license agreements, but which, in fact, had been collected by a court-appointed receiver. The Government petitioned for a rehearing from that decision, asserting that there were ambiguities in the opinion. This Court then, with appropriate instructions, ordered the district court to supervise the turn-over to Hartford-Empire of the royalties. Under its instructions from this Court, the principal duty of the district court was to decide whether Hartford-Empire, during the pendency of the litigation, had been guilty of some added violation of the antitrust laws that disqualified it from collecting compensation for the use of its patents in that period. This Court did not regard assertion by Hartford-Empire of claims for use made of its patents while litigation was pending as misuse of those patents in violation of the antitrust laws. And the district court, when it found that Hartford-Empire had not violated the antitrust laws *pendente lite,* ultimately ordered a sub-

* *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386 (1945), and *Hartford-Empire Co., et al.* v. *United States,* 324 U. S. 570 (1945).

stantial part of the royalties that had been collected by the receiver to be paid over to Hartford-Empire.*

As stated, the corporate appellees conceded at the June 9, 1953 hearing that USG was not violating the anti-trust laws except as the filing of the suits against them might be considered such a violation (R. 699). Moreover, this Court noted, when passing on the appeal of the Government from the 1949 decree, that both that summary decree and its underlying adjudication of limited violation of the Sherman Act accepted

> "as true the underlying facts in defendants' proof by proffer. * * * That conclusion entitled the Government only to relief based on that finding [the Sherman Act violation] and the proffered facts" (340 U. S. 76, 88).**

The proffered facts that underlay the 1949 decree, and that alone underlie the 1951 decree and the appealed from 1954 amendment, established that the invalidated license agreements were entered into to dissolve complicated conflicts over patents that theretofore had been thwarting development of wallboard technology (R. 36-44).

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* The ultimate settlement between Hartford and its various licensees, which was approved by the district court, resulted in Hartford's receiving a total of $7,267,049.82 from its licensees for use of Hartford-Empire patents, machines and services during the *pendente lite* period ("Final Report and Account of Operations of Receiver of Hartford-Empire Co." (p. 5) filed December 20, 1945, and approved on January 17, 1946, in Civil Action No. 4426, U. S. District Court, N. D. Ohio, W. D.).

** Defendants' offer of proof herein negated the material facts of wrong doing alleged in the complaint except that the defendant companies had entered into industry-wide license agreements with price limitation provisions (R. 36-54, 56-57). In dismissing USG's 1950 appeal, this Court accepted the district court's adjudication of law violation as being limited to the one undisputed question of defendants' concerted action through the licenses, and accepting as true the underlying facts of defendants' proffered proof. This Court expressly recognized the "narrow limits of the proven violation" (340 U. S. 76, 88, 90). See also *Timken Roller Bearing Co.* v. *United States*, 341 U. S. 593, 600 (1951) and *International Brotherhood* v. *NLRB*, 341 U. S. 694, 706 (1951).

The record does not support an inference that freedom of entrance had been foreclosed to any of those segments of the economy affected by the illegal patent licenses. The record does not support a claim that there had ever been exorbitant royalty rates. Indeed, the "reasonable" royalties that have been paid under the compulsory patent license agreements granted by USG since the final decree of May 15, 1951, are calculated at the same rate, as to the patented goods, as were the royalties charged under the outlawed agreements (R. 605, 658, 783).

On facts favoring compensation that were far less persuasive than those in the instant action, this Court, in the *Hartford-Empire* case, held itself compelled to allow reasonable compensation to be paid to the patentee for use of its patents during a comparable period. Proscription by the district court of the USG compensation suits would seem to be relief, therefore, of a kind that this Court has said may not be granted. It is, in short, an illegal penalty, imposed "in the guise of preventing future violations" of the Sherman Act. See *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 409 (1945); and *United States* v. *Oregon State Medical Society*, 343 U. S. 326, 333 (1952).

It can make no difference that the defendant licensees in *Hartford-Empire* had paid royalties and were not infringers, as the corporate appellees suggest in their motions to affirm (Nat'l. 17-18, Cert. 20-21). The royalties collected were earmarked and could have been returned easily had this Court determined that because of prior misuse Hartford was not to be paid for use of its patents *pendente lite*. But there a procedure was approved which permitted Hartford-Empire to obtain in excess of $7,000,000 of the royalties paid the Receiver, whereas in this case the district court has denied USG the right to seek compensation for the actual use of its patents during a similar period.

(b) The misuse of patents ruling is also in conflict with the *Federal Rules of Civil Procedure,* particularly Rule 8 thereof. This conflict arises because the district court held both that the final decree of May 15, 1951,

> "• • • did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*"

and that

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
>
> "We think such an attempt is clear misuse of its patents • • •."

The district court did not regard those twin holdings as anomalous, because, to the district court, the mere pleading by USG of Counts I and II in its compensation suits amounted to a misuse of patents.

But at least since 1938, it has been the rule in courts of the United States that the statement of separate causes of action or counts in a pleading is only a statement of the same claim in the light of different legal theories. Although "count" pleading is permitted under federal practice, the sole function of a complaint in a district court is nonetheless to give a simple statement in sequence of the events which have transpired, coupled with a direct claim by way of demand for judgment of what the plaintiff hopes and expects to recover. Once a plaintiff has stated his claim, either in separate counts or as a simple statement of events, the final theory of recovery is for the court rather than the pleader. This concept of federal pleading is

clearly expressed in Rule 8 of the Federal Rules of Civil Procedure.*

When the complaints against National, Certain-teed, Ebsary and Newark were being drafted, USG was faced with the problem of stating a claim that would cover any one of several situations that might develop at the trial. Clearly, if it could be established that the license agreements had been abandoned and repudiated by the parties following the first decision of this Court, or had been voided by that decision, then, of course, the subsequent use of the patents laid the users open to claims of *quantum meruit* or infringement liability. On the other hand, if USG were to confine its claim to one of *quantum meruit* or infringement and a defendant were to defend by claiming the right to use the patent under its old license agreement,** USG would be confronted with the possibility of a court concluding that there was an unasserted claim under the contract for all or part of the pertinent period that defeated recovery on *quantum meruit* or for infringement.***

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* Thus, Subsection (a) of Rule 8 reads in part:

"Relief in the alternative or of several different types may be demanded."

and Subsection (e) of the same Rule allows a party to

"* * * set forth two or more statements of a claim * * * alternatively or hypothetically, either in one count * * * or in separate counts * * *. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims * * * as he has regardless of consistency and whether based on legal or equitable grounds or on both. * * *" (See App. C1).

** The eighth defense of National to Count V of the Iowa suit actually raises this very defense (R. 723-724).

*** That such a possibility existed seemed likely for two reasons: first, the district court, in entering the 1949 and the 1951 decrees, did not strike down the USG license agreements because they were inherently illegal or improper, but rather because of a conspiracy established by the concerted action among the defendant com-

Stating different theories under separate counts was a proper precautionary measure authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading would possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of plaintiff's patents.

All USG attempts to do in its now pending suits is to recover reasonable compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held to be without merit, the worst consequence should be the dismissal of those counts. In holding that USG, in pleading Counts I and II, thereby forfeited its right to recover for the use of its patents, the district court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure.

The Government has implicitly acknowledged the correctness of the above analysis. The petition of the Government only requested that the district court expressly adjudge that the invalidated license agreements could not be used to bottom any theory of recovery to USG. In support of this the Government argued that when a court has

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panies, which conspiracy was collateral to each separate license agreement as such; and, second, the royalty provisions of those license agreements are severable from the price limitation provisions and therefore could be deemed to support recovery of royalties during the period the license was in effect, even though USG would not be able to enforce the price-fixing provisions. The first point is illustrated by this Court's finding of conspiracy by concerted action "despite the assumed legality of each separate patent license" (333 U. S. at p. 401); and the second by this Court's injunction *pendente lite* of performance of any of the "price fixing" provisions of the license agreements but without enjoining use of the patents or payment of royalties thereunder (339 U. S. 960).

declared a patent licensing contract "illegal, null and void" under the antitrust laws, that decision should remove the patent license as a font of rights justifying payment of royalties.

But to accept the contention of the Government does not force, as the Government recognized, the conclusion that the mere alternative submission of such a legal theory to a court is a misuse of patents. Engrossment in a federal pleading of a count on contracts debilitated by an antitrust decree cannot be, under modern concepts of pleading, a misuse of those patents that the contracts purport to license.

(c) The decision of the district court that a continuing misuse by USG of its patents exists, as a matter of law, because USG seeks compensation from its co-conspirators for their use of USG's patents, conflicts with the public policy now conclusively established by the recent codification of the patent laws.* 35 U. S. C., Section 271(d), provides in its relevant portions (see App. C3):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

The right of a patentee to seek compensation for use of its patents is clearly an enforceable right within the meaning of the new codification. One who merely does what he is authorized to do by statute is not guilty of misuse of his patents. In *Cole* v. *Hughes Tool Company*, 215 F. 2d 924, 935 (10th Cir. 1954), cert. denied 348 U. S. 927, the court refused to hold that the bringing of patent in-

* This codification (35 U. S. C.) of the patent laws went into effect January 1, 1953. The USG compensation suits were filed thereafter.

fringement suits was a misuse of patents, citing 35 U. S. C. 271 (d).

Since it is the declared policy of that codification that mere bringing of a patent infringement suit is not a misuse of patents, then *a fortiori,* a suit for infringement joining counts for compensation claims on other theories, including counts on a license agreement (which, *inter alia,* is a grant of immunity from a suit for infringement), cannot itself constitute a misuse of patents.

The district court apparently misunderstood this contention of appellant, for in its memorandum, filed June 30, 1955, denying the motion of USG for a new trial, it sought to pose as an objection to the USG position a contention that Congress cannot have intended by Section 271(d) to give a patentee a protection superior to the broad public policy of the Sherman Act, or to nullify the power of a court to effectuate the purposes of an antitrust decree (R. 1337).

Of course no such claim was ever made by appellant. It was because the district court had ruled that the mere bringing of the USG suits constituted a misuse sufficient to bar prosecution of the suits (R. 1014-15, 1157) that appellant, in its Motion for New Trial, cited Section 271(d) as being in direct conflict with such a ruling (R. 1165).

The district court in its supplemental memorandum (R. 1337), rather than meeting the point head-on, indulged in circuitous reasoning. After misinterpreting the USG position, the court said that the vital words in the statute are "otherwise entitled". The court then proceeded to hold that since USG is still misusing its patents (by reason of its suits to recover compensation including a count on the license agreements), it is not "otherwise entitled" to recover, and therefore not within the statute providing that

a patent owner shall not be guilty of misuse by having sought to enforce his patent rights.

In further support of its conclusion that USG is not "otherwise entitled" to recover, the court pointed out that it had determined to modify the 1951 decree by enjoining the USG suits, so as to effectuate the purposes of that decree, and that Section 271(d) cannot be construed as nullifying the power of a court to effectuate the purposes of an antitrust decree. The fallacy of this interpretation of "otherwise entitled" lies in the erroneous assumption that when the USG suits were brought the then unmodified 1951 decree forbade them, when the lower court had actually held in its main decision that the decree did not expressly or impliedly cover the *quantum meruit* or infringement counts (Conclusion 7, R. 1156).

Who knows whether or not USG was "otherwise entitled to relief" until the issues joined in the district court in Iowa have been heard and determined? Certainly the court below cannot hold in this proceeding that USG is not "otherwise entitled to relief", and therefore not within Section 271(d), on the fallacious reasoning in its memorandum and without the benefit of any evidence whatsoever as to the misuse and purge issues.

Moreover, disregard of Section 271(d) squarely conflicts with Article VII of the 1951 final decree, which expressly provides that nothing contained in the decree shall be deemed to have any effect upon the operation or activities of the defendants which are authorized or permitted by any present or future Act of Congress, or any amendment thereto (R. 570). The 1954 amendment thus destroys rights preserved to appellant by Article VII of the 1951 decree.

Needless to say, the district court, in its opinion, cites no authority for its unique misuse ruling. No other case has held that the mere bringing of a suit to recover

money alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, constitutes without more misuse of a patent as a matter of law. It is an entirely novel proposition in support of which no authority can be cited.*

Not only does the ruling conflict with *Hartford Empire* (*supra*, pp. 38-40), but it is contrary to the only other case appellant has found presenting a similar situation. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc., et al.*, 90 F. Supp. 730 (D. Del. 1950), aff'd 185 F. 2d 407, cert. denied 341 U. S. 950, the complaint alleged two causes of action: one for an accounting for royalties on a license agreement, and a second, in the alternative, for infringement. The court rejected defendants' motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law (90 F. Supp. at p. 736).

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* Actions for direct infringement are to be distinguished from pre-patent-law-codification cases involving actions for contributory infringement such as *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Strocco Products, Inc.* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Calif. 1944). In fact, such decisions, holding that the filing of contributory infringement suits *per se* constituted an attempt to extend the scope of the patent to products outside the patent monopoly and therefore a patent misuse, were largely responsible for the enactment of 35 U. S. C. 271(d)(3). See Hearings before Sub-committee No. 3 of the House Judiciary Committee, on June 15, 1951, pp. 169-174 Committee Reprint. See also House Report No. 1923, 82d Cong., 2d Sess., p. 9, and Senate Report No. 1979, 82d Cong., 2d Sess. p. 8, to the effect that Section 271 (d)(3) "provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent."

III.

THE DISTRICT COURT ERRED IN HOLDING THAT THE ISSUES OF PATENT MISUSE AND PURGE DURING THE 1948-1951 PERIOD COULD BE ADJUDICATED AS A MATTER OF LAW AND WITHOUT THE TAKING OF ANY EVIDENCE.

Another basic error in the district court's decree of December 9, 1954, and in its findings and conclusions entered on that date, lies in the determination, as a matter of law, of the issues of misuse and purge during the 1948-1951 period (F. 22, R. 1150-52; C. 11, 12, 13 and 15, R. 1157-58). This determination is reached notwithstanding the facts that the misuse relied on was the bringing of the USG suits in 1953 and that the court would thus deny USG any opportunity of presenting evidence of a purging of any misconduct with which it is charged.

(a) It is well established that questions of misuse and purge involve a factual inquiry into the circumstances of the particular case, and that such questions cannot be decided preliminarily as a matter of law without a hearing on all pertinent facts at issue. *Metals Disintegrating Co., Inc.* v. *Reynolds Metals Co.*, 92 F. Supp. 896, 898 (D. Del. 1950) and 107 F. Supp. 105 (D. Del. 1952), aff'd. 228 F. 2d 885, 889 (3d Cir. 1956); *Hawkinson* v. *Dennis*, 166 F. 2d 61, 63 (5th Cir. 1948); *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139, 146 (4th Cir. 1950); *Hoague-Sprague Corp.* v. *Bird & Son*, 91 F. Supp. 159, 163 (D. Mass. 1950); *Park-In Theatres* v. *Paramount-Richards Theatres*, 81 F. Supp. 466, 475 (D. Del. 1948) and 90 F. Supp. 730 (D. Del. 1950).

In *Metals Disintegrating*, the court denied defendant's motion for summary judgment, and in finding for plain-

tiff after a hearing on purge, listed four factual issues for determination (107 F. Supp. 105):

> "Past misuse is admitted [by the pleadings]. There remains for decision the following points: 1. the extent of the misuse; 2. whether the misuse has terminated; 3. the effect of the misuse; and 4. what consequences, if any, of the misuse have terminated."

In the *Westinghouse Electric* case, the Court of Appeals reversed a summary judgment for defendant, saying (179 F. 2d at p. 146):

> "* * * We may add that we concur in what was said by the Court of Appeals of the Fifth Circuit in *Paul E. Hawkinson Co.* v. *Dennis,* 166 F. 2d 61, 63, as to the inadvisability of granting summary judgment for a defendant charged with infringement of a patent on the ground of plaintiff's illegal conduct, unless it appears beyond question that relief should be denied on that ground. A party charged with infringement should not be permitted too easily to escape trial of the issue by raising a clamor to the effect that the holder of the patent alleged to have been infringed has done something that he should not have done. The public interest will be better served by a full hearing on all issues involved, before there is any attempt at dismissal in application of the clean hands doctrine, than by dismissal in advance of hearing on the motion of one who comes into court admitting for the purposes of his motion that he himself is guilty of infringement. * * *"

In *Hoague-Sprague,* the court denied a summary judgment motion, saying (91 F. Supp. at p. 163):

> "Whether such a satisfactory purge has taken place is, of course, largely a question of fact. * * * This is a question, then, which must be determined at a trial on the merits. * * * plaintiff is entitled to an opportunity to demonstrate to the court that such leases have been abandoned and that a satisfactory purge has

been effected; also to show that the defense of unclean hands is no longer applicable, at least as to its right to seek injunctive relief. The situation calls for evidence on the issue, not summary judgment."

(b) The district court erroneously overlooked that established principle. It also ignored the facts that the record before it was compiled over ten years ago and that the evidence on which the adjudication of antitrust violation was predicated did not extend beyond the year 1941; that there has been no price fixing under the licenses since July 8, 1941; that the pertinent period involved in the USG pending suits is from February 1, 1948 to May 15, 1951; and that the 1953 petitions and USG's answers thereto, as well as USG's pending suits in the Iowa federal court, join issues of fact with respect to misuse and purge during the pertinent period—issues as to which no opportunity has ever been given for the taking of evidence.

The district court found as a fact that USG did not purge itself of its patent misuse prior to May 15, 1951 (F. 11, R. 1157). Nowhere did it determine exactly of what this misuse consisted. It may be suggested that inferentially it found that the unpurged misuse was that established by the proceedings of record in the antitrust case. But since proof of that misuse went no farther than 1941, it cannot be said to have established misuse in the 1948-1951 period, unless there is some presumption of continued misuse which can be used to supply the missing connection. Neither the appellees nor the lower court have suggested that there is any such presumption. On the contrary, National alleged in its petition (Claim II) that USG continued to misuse its patents during the 1948-1951 period, the effects of which were not dissipated until at least May 15, 1951, and specifically alleged several kinds of misuse during that period (R. 611). No proof, however, was offered or received in support of those allegations,

although they were denied by the answer of USG (R. 788-9, 797-8), and National asserted at the June 9, 1953 preliminary hearing that its Claim II was based upon a misuse of patents as to which issue there would probably be questions of fact (R. 676-8).*

There can be no presumption in law of the continuance of illegal conduct.** In early 1948 the opinion of this Court established *prima facie* the illegality of the USG patent licenses, from which, if there be any presumption, it is that the law as thus declared has been obeyed since that time.***

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* That patent misuse and purge present factual issues was acknowledged by the corporate appellees in the following colloquy between Judge Worley and the attorney presenting the main argument in opposition to the USG motion for new trial (R. 1294-95):

"Judge Worley: May I ask you a question there, please? Whether misuse is present is always a question of fact, is it not?

"Mr. Rosenman: Yes, sir.

"Judge Worley: Whether a patentee misuses?

"Mr. Rosenman: Yes, sir.

"Judge Worley: And whether he has purged himself of that misuse is likewise a question of fact, is it not?

"Mr. Rosenman: Yes, sir."

** The continuance of wrongful conduct will not be presumed. *Davis* v. *S. E. C.*, 109 F. 2d 6, 9 (7th Cir. 1940), cert. denied 309 U. S. 687; *Schlitz Brewing Co.* v. *Compton*, 142 Ill. 511, 519 (1892). This is but a corollary of the presumption that business is conducted lawfully—that one acts honestly and keeps within the requirements of the law. *Bank of U. S.* v. *Dandridge*, 12 Wheat. (25 U. S.), 64, 69 (1827); *International Shoe Co.* v. *Commission*, 280 U. S. 291, 302 (1929); *Missouri Pacific R. R. Co.* v. *Prude*, 265 U. S. 99, 101 (1924); *Cincinnati & Texas Pac. Ry.* v. *Rankin*, 241 U. S. 319, 327 (1915); *Pasadena Research Lab.* v. *U. S.*, 169 F. 2d 375, 382 (9th Cir. 1948), cert. denied 335 U. S. 853.

*** Not only are parties presumed to know the law as pronounced by this Court (*W. F. & John Barnes Co.* v. *International Harvester Co.*, 145 F. 2d 915, 918 (7th Cir. 1945), cert. denied 324 U. S. 850; *In re Stratton*, 53 F. Supp. 131, 133 (S. D. Calif. 1943), aff'd. 148 F. 2d 986, aff'd. 327 U. S. 269), but they are presumed to follow and comply with it (*New York Central & Hudson R. R.*

The district court also found patent misuse subsequent to May 15, 1951, but it is clear that this misuse was limited strictly to the attempts by USG to recover compensation for the use of its patents (F. 13, R. 1157). This determination has no factual foundation and is fallacious as a matter of law (*supra*, pp. 36-47).

(c) The district court's error on the purge issue apparently results in part from its misconstruction of USG's contentions regarding certain evidence of purge already in the record. The manner in which the issue of purge came to be considered by the district court in this connection warrants a word of explanation. It was at all times the position of USG that the burden was upon petitioners to establish by evidence actual misuse by USG of its patents in the 1948-1951 period, and that should evidence to that effect be received, USG had a right to introduce countervailing evidence to show that whatever misuse had been established had been purged. Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (R. 676-8, 691-2, 1252-3), USG nevertheless contended that there were certain facts already of record which had a purging effect sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor as to the 1948-1951 period.

In an effort to demonstrate to the court its position with respect to purge, assuming *arguendo* that patent misuse had been established prior to February 1948, USG called the district court's attention, for illustrative purposes only and not as the only or exclusive facts showing

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Co. v. *Beaham*, 242 U. S. 148, 151 (1916); *McFarland* v. *Campbell*, 213 F. 2d 855, 858 (5th Cir. 1954); *Athens Roller Mills* v. *Com'r. of Int. Rev.*, 136 F. 2d 125, 128 (6th Cir. 1943); *Fidelity & Deposit Co.* v. *Grand Natl. Bank of St. Louis*, 69 F. 2d 177, 183 (8th Cir. 1934); *American Surety Co.* v. *Citizens' Natl. Bank*, 294 F. 609, 616 (8th Cir. 1923)).

purge, to certain facts already in the record before the district court which USG contended might well establish purge of any such misuse (R. 812, 1171-2, 1250-3). These facts of record were:

(1) USG had not enforced or implemented the price-fixing provisions of its licenses at any time subsequent to July 8, 1941 (F. 19, which the Government did not assign as error, 1947 R. 4143, 4181; R. 789; F. 22A, R. 1150; see *United States* v. *United States Gypsum Company, et al.*, 67 F. Supp. 397, 412);

(2) On March 8, 1948, when petitioners ceased paying royalties, the licenses had been rescinded by act of the parties, and no action had been taken thereafter by USG or any licensee to enforce or require performance of any of the provisions thereof (R. 611, 661, 778-9, 795, 973, F. 6, 7, R. 1145-6);

(3) In early 1949 USG had offered to its licensees new licenses avoiding all provisions found objectionable in this Court's first decision of March 8, 1948 (R. 396-8, 447, 481, 562, 567-70);

(4) USG had been under court order enjoining any misuse of its patents, including any enforcement or performance of the price limitation provisions of the old license agreements, during most of the 1948-1951 period. Not only was there a legal presumption that it had obeyed such court orders, but there was no suggestion of their violation by USG or any other defendant. Specifically, the district court had entered such an injunction on November 7, 1949 (R. 475);

(5) As a further instance supporting the preceding point (4), this Court, in noting probable jurisdiction of the Government appeal, on May 29, 1950, enjoined USG and the other corporate defendants from enforcing in any manner whatsoever the price limitation provisions of the license agreements and from entering into or performing any agreement in restraint of trade by license or other concerted action, which order was in effect until the entry of the 1951 decree (339 U. S. 960; R. 514).

The lower court's treatment of these facts as the only evidence of purge brings about a wholly erroneous and inequitable result.

(1) The district court found that USG did not fix prices under the licenses after July 8, 1941, but rejected the purging effect of that fact because (a) the reserved right to do so remained, and (b) the price fixing provision was inseparable from other provisions found violative of the Act (F. 22A, R. 1150). The latter reason is meaningless since it was the price provision which violated the Act. The first reason is contrary to the authorities (*infra*, pp. 56-60). Certainly nonuse demonstrates purge; it is particularly pertinent in showing dissipation of any illegal effects.

(2) The district court found that the licensees abandoned the license agreements following the first Supreme Court decision on March 8, 1948 (F. 7, 8; R. 1145-6). But the court summarily disposed of the claim that USG "acquiesced" in that abandonment. This was a factual issue not only under the 1953 petitions and answers thereto (R. 789), but also in the Iowa suits (*i. e.*, Count III, R. 618, 650), and it was clearly error to adjudicate that issue without the taking of any evidence.

(3) The offer by USG of new licenses in 1949, untainted with any improper provisions which could support a charge of patent misuse, was erroneously rejected as an act of purge (F. 22C, R. 1151). This was in part because the court thought the proffered licenses differed from the form approved by this Court, whereas, in fact, the offered licenses were the same as those the district court approved in 1949 and differed from those approved in the 1951 decree only in respect of requirements in the latter (a) that licensees' reports need not show a breakdown as to thickness and size of board, and (b) that verification of licensees' reports must be by an independent auditor or person acceptable to both parties (rather than a USG audi-

tor or, at licensees' option, a mutually satisfactory CPA), who shall report only the royalty due (compare R. 447 and 481 with R. 562, 567-70).

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by USG of its patents? Definitely not, and this Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price-fixing and all other objectionable features had been removed. The proffered licenses were innocuous, and legal in every respect. The failure of the corporate appellees to accept them should not operate to deprive USG of the purging effect of its good faith offer.*

(4) The district court missed the point of the fourth fact of purge, *i. e.*, the 1949 adjudication of the old licenses as illegal, null and void, and injunction against their performance or enforcement (R. 475, 814, 1151-2, 1172, 1253-4). USG relied upon the effect of the decree itself as a purge, and not the incidental fact that it had at first decided not to appeal from it.** This adjudication was rejected as a

* Another reason for rejecting this claim was that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old licenses were to be cancelled and terminated (R. 1151). The proposed decretal provision for cancellation was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the significance attached to it by the court. Moreover, the court concluded that the old licenses were "nullified completely" by the 1949 decree (C. 7, R. 1156), and the corporate appellees, in their motions to affirm, assert that they were voided by this Court's opinion of March 4, 1948 (Nat. 3; Cert. 4).

** The court's reference to the incidental fact of USG's decision not to appeal overlooks the facts that *first*, it was claimed in the Certain-teed brief that the 1949 decree did not constitute a purge because USG appealed from it, and *second*, it was only to meet such a contention that the argument, erroneously referred to by the lower court as the fourth fact, was made in presenting the fourth fact of purge (R. 1172, 1253-4).

fact showing purge, although in another connection, the court found that the same adjudication "nullified completely" the license agreements (C. 7, R. 1156).

(5) This failure to grasp the purging effect of an injunctive order is also reflected in the lower court's rejection of this Court's injunction of May 29, 1950, as evidencing purge. Moreover, it appears that this rejection was influenced by the court's erroneous continued misuse ruling based on the pending USG compensation suits (F. 22E, R. 1152).

The district court's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of the USG patents, despite ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, repeated offers by USG of new, legally unobjectionable licenses, and the injunctions (respected and adhered to by USG and its licensees) of the district court and of this Court against misuse of the patents during much of the pertinent period.

(d) Each of these five facts, under the authorities, constitutes a purging of any alleged patent misuse by USG; the cumulation of such facts establishes purge beyond doubt. But assuming, *arguendo,* that they do not establish purge, as the district court concludes, they are certainly sufficient, when considered with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge, which is what the lower court's ruling amounts to.

(1) A patentee's affirmative, unilateral action to cease or terminate the alleged patent misuse is a recognized means of purge. In *Eastern Venetian Blind Co.* v. *Acme Steel Co.,* 188 F. 2d 247 (4th Cir. 1951), cert. denied 342 U. S. 824,

where at the trial plaintiff cancelled its licenses and offered new unobjectionable licenses, the court said (p. 254):

> "By these actions whatever defect was found in the early licenses has now been removed and the case falls within the rule which is equally well established that even if a patentee has in the past misused his patents, he is entitled to equitable relief after the misuse has been fully abandoned."

To the same effect is *Baker-Cammack Hosiery Mills* v. *Davis Co.*, 181 F. 2d 550 (4th Cir. 1950), cert. denied 340 U. S. 824, where the objectionable features of the license were eliminated in plaintiff's offer to license the industry sent out after the pending suit began, but before trial, which the court held was sufficient to purge any misuse because of improper terms in the original licenses. The court said (p. 571):

> "* * * We think that the case should be decided on the basis of the last offer, for even if the first offer was improper, the plaintiff was clearly within its rights in withdrawing and correcting it."

In *Metals Disintegrating Co., Inc.* v. *Reynolds Metals* Co., 228 F. 2d 885 (3d Cir. 1956), the patentee misused its patents by entering into illegal price fixing agreements with the defendant and another licensee in 1939. In 1946 the patentee no longer sought to enforce the price fixing arrangement, and in 1948 the contract was declared null and void by a court. In holding that damages for infringement might be properly computed from 1947, the court said (p. 889):

> "The court below found as a fact that misuse as regards defendant ceased about November, 1946, and all misuse terminated by April 2, 1947. Defendant argues that in law its contract with plaintiff was a misuse which continued to the date it was declared illegal by the District Court although the agreement was never enforced after November, 1946. The short

answer to defendant's contention is that in legal contemplation its contract with plaintiff, being contrary to public policy, was never valid. Licznerski v. United States, 3 Cir. 1950, 180 F. 2d 862, cert. denied 339 U. S. 987. The significant question is factual. When did all performance under this agreement cease? Since plaintiff did not seek to enforce the bargain after November, 1946, it was not guilty of any misuse with respect to defendant thereafter. This conclusion is reinforced by the fact that plaintiff unsuccessfully sought defendant's agreement to formal elimination of the illegal provisions. Thus, but for defendant's intransigence, there would not even be colorable basis for its present contention.

"We accordingly agree that purge as regards defendant was complete in November 1946 and all illegal use terminated by April 2, 1947. Therefore, damages may properly be computed from the latter date."

In *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (4th Cir. 1950), a letter by Westinghouse waiving the price maintenance provision of its outstanding circuit breaker licenses, is held a sufficient purge to permit a judgment for infringement to stand, the court saying (p. 145):

"We need not decide * * * whether the price maintenance provisions of the multibreaker licenses are illegal, as we think it clear that any illegality that may have existed has been purged as a result of the action of Westinghouse in promptly surrendering all rights under these provisions following the decision in the *Line Material* case and abandoning all efforts at price control."

The *Westinghouse* case was cited with approval by this Court in *Automatic Radio Co.* v. *Hazeltine*, 339 U. S. 827 (1950), where the Court, finding that a licensor had waived

by letter a restrictive notice provision in its licenses, said (p. 835):

> "* * * it is clear that any issue with respect to this provision of the agreement is moot."*

(2) It is equally well established that evidence of the mutual rescission or disregard of offending agreements establishes purge. In *Park-In-Theatres* v. *Paramount-Richards Theatres,* 90 F. Supp. 730, 735 (D. Del. 1950), the court stated that evidence of rescission of the offending contract by conduct of the parties would constitute abandonment or cessation of the improper use of a patent—at least the possibility of such evidence precluded a summary judgment for defendants. In *Campbell* v. *Mueller,* 159 F. 2d 803, 806-7 (6th Cir. 1947), evidence of the abrogation and cancellation of the license, which contained a minimum price clause, after start of the infringement suit, was held to constitute a purge. In *Sylvania Industrial Corp.* v. *Visking Corp.,* 132 F. 2d 947 (4th Cir. 1943), app. dism. 319 U. S. 777, plaintiff withdrew the offending licenses and changed its method of doing business after the trial court announced that plaintiff's licensing practice of tying in unpatented materials was objectionable. This step was held to constitute a purge and to restore plaintiff's right to enforce its patents. Similarly, in *Air Products* v. *Boston Metals Co.,* 98 F. Supp. 719 (D. Md. 1951), rev'd on other

* Additional cases recognizing purge by the patentee's unilateral action are *White Cap Co.* v. *Owens-Illinois Glass Co.,* 203 F. 2d 694 (6th Cir. 1953), cert. denied 346 U. S. 876, where the cancellation of objectionable features of a machinery lease *pendente lite* was held to purge patent misuse; *Hoague-Sprague Corp.* v. *Bird & Son, Inc.,* 91 F. Supp. 159 (D. Mass. 1950), where an affirmative change from an objectionable royalty provision which tied in unpatented materials to a straight monthly rental was held sufficient to constitute a purge; *Kool Vent Metal A. Corp.* v. *American Beauty V. A. A. Co.,* 119 F. Supp. 802 (N. D. Ohio 1954), rev'd. on other grounds 226 F. 2d 207 (6th Cir. 1955); and *Universal Sewer Pipe Corp.* v. *General Construction Co.,* 42 F. Supp. 132 (N. D. Ohio 1941).

grounds 193 F. 2d 535 (4th Cir. 1952), cert. denied 343 U. S. 953, where plaintiff had leased its patented equipment on condition that lessee would use with it only oxygen purchased from plaintiff, and where after commencement of suit and just prior to trial plaintiff modified such leases with the concurrence of lessees, it was held that such a step constituted a complete purge. See also, *Morrill, et al.* v. *Automatic Industries, Inc.*, 93 F. Supp. 697 (W. D. Mo. 1950).

(3) Another recognized means of purge is the entry of an antitrust decree enjoining the continuation of the alleged misuse. Thus, in *Standard Oil Co.* v. *Markham*, 163 F. 2d 917 (2nd Cir. 1947), cert. denied 333 U. S. 873, the court said in answer to defendant's defense of unclean hands because of patent misuse (p. 927):

> "• • • since the consent decree the property in suit has not been used in violation of the antitrust laws • • • These plaintiffs have paid once, in the consent decree, for their wrongdoing and should not be made to pay again for those same acts."

Similarly, in *Hartford-Empire* certain rights of defendant were dated from the "entry of the receivership decree" and "entry of the decree by the District Court", both of which preceded by several years the final decree in the case. See 323 U. S. 386, 411 and 324 U. S. 570, 572.

(e) The district court's ruling discloses a misunderstanding as to how issues of misuse and purge normally arise. It seems to consider that there is some duty on a patentee to come before the court which tried the antitrust case, as the court of paramount jurisdiction, and affirmatively establish its compliance with the requirements of the decree and its eligibility for an order that it is duly purged and can henceforth recover for use of its patents.

That, of course, is not the way these issues arise. A patentee, learning of infringement or use of its patent

without compensation, brings suit. The defendant, seeking to avoid liability, injects the defense of patent misuse.* Being an affirmative defense, the burden is on the defendant to prove the misuse, whereupon the burden shifts to plaintiff to show that there was no misuse during the period involved or that any illegal effects of a prior misuse has been dissipated;** in other words, that there has been a purge of any prior misuse.

Applied to the *instant* case, the defense of misuse has been injected by both National and Certain-teed in the USG suits in Iowa, based upon the adjudication of the Sherman Act violation in this case as proof of such misuse (R. 715-18, 731-4). This should not be sufficient to shift the burden of proof, *first,* because the decree speaks factually not later than 1941, the last year as to which there was any evidence introduced, and *secondly,* because of the narrow adjudication of law violation in this case.

USG would contend that the adjudication here fails to prove misuse in the pertinent 1948-1951 period. If sustained, the defendant must prove misuse in that period. If the court rules that there was misuse prior to 1941 sufficient to put USG on proof of purge before or during the 1948-1951 period, then USG must prove that any misuse had ceased.***

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* Although the misuse doctrine is a relatively new one, it has become a defense commonly used in suits to recover for use of patents.

** It is not necessary to prove that the consequences of misuse have been dissipated where it is not shown that the misuse had illegal consequences. *White Cap. Co.* v. *Owens-Illinois Glass Co.*, 203 F. 2d 694, 698 (6th Cir., 1953), cert. denied 346 U. S. 876.

*** The facts as to the industry since 1941, the effects of government price control in the war period, this Court's decision of May 8, 1948, the district court's granting of the Government's motion for summary judgment on June 29, 1948 and its 1949 decree, and this Court's injunction of May 29, 1950, will be only a part of the evidence to establish purge (R. 1250-53). See also matters set up in the USG answers to the National and Certain-teed 1953 petitions (R. 788-89).

The doctrine of patent misuse and purge is of relatively recent development and had its genesis in the decisions of this Court. It is not believed that this Court intended that the doctrine should serve to deprive a patentee of the right to show that patents were not being misused, or that there had been a purge of any possible prior misuse, during a period seven to ten years after the alleged misuse. The district court's ruling on the misuse and purge issues calls for a reversal of the December 9, 1954 decree, and highlights the need for a clarification by this Court of the procedure for determining such issues, as well as the extent of the doctrine.

IV.

THE DISTRICT COURT ERRED IN HOLDING THAT THE FINAL DECREE OF MAY 15, 1951, BARRED, OR SHOULD BE AMENDED TO BAR, USG FROM SUING TO RECOVER COMPENSATION FOR USE OF ITS PATENTS BY THE CORPORATE APPELLEES DURING THE 1948-1951 PERIOD.

A brief review of the 1951 decree and its factual background shows that it did not, and was not intended to, bar USG from suing to recover reasonable compensation for prior use of its patents and that the 1954 amendment ordering the dismissal of USG's suits with prejudice is wholly unsupportable.

1. The May 15, 1951 Decree.

(a) Certain well established rules applicable to equity decrees are pertinent. An injunction entered in an antitrust suit, as in other equity proceedings, must be precise and specific and not phrased in generalities. The acts restrained must be described with particularity. *Schine Chain Theatres* v. *United States,* 334 U. S. 110, 126 (1948); *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 410 (1945);

Swift & Co. v. *United States,* 196 U. S. 375, 396, 401 (1905). As was succinctly stated in the *Swift* case (p. 401), "The defendants ought to be informed as accurately as the case permits what they are forbidden to do." The requirement for explicitness in an injunctive decree is codified in the Federal Rules of Civil Procedure, Rule 65(d), which provides that every restraining order "shall be specific in terms" and "shall describe in reasonable detail * * * the act or acts sought to be restrained."

It is also well established that the effect of a decree, as an adjudication conclusive upon the parties, is determined by a close examination of the issues actually presented and decided. Even broad injunctive language, when subsequently construed, will be read strictly in the light of the actual controversy which existed before the court entering the decree; it will not be read broadly, so as to prohibit more than the court actually intended to prohibit at the time the decree was entered. *Vicksburg* v. *Henson,* 231 U. S. 259, 268-273 (1913); *Oklahoma* v. *Texas,* 272 U. S. 21, 43 (1926); *United Shoe Machinery Co.* v. *United States,* 258 U. S. 451, 460 (1922).

Moreover, a court may not, under the guise of construction, add new substantive provisions which were omitted or withheld in the first instance. *Hughes* v. *United States,* 342 U. S. 353, 357 (1952); *United States* v. *International Harvester Co.,* 274 U. S. 693, 702-3 (1927). In *Hughes,* this Court, in reversing the trial court's modification of the decree, said (p. 357):

> "It may be true as the Government now contends that Hughes' large block of ownership in both types of companies endangers the independence of each. Evidence might show that a sale by Hughes is indispensable if competition is to be preserved. However, in section V the parties and the District Court provided their own detailed plan to neutralize the evils from

such ownership. Whatever justification there may be now or hereafter for new terms that require a sale of Hughes' stock, we think there is no fair support for reading that requirement into the language of section V. The District Court's order cannot be supported by reliance on such an interpretation. Consequently the court's command to sell the stock effected a substantial modification of the original decree."

An application of these rules is found in *Terminal Railroad Association of St. Louis* v. *United States,* 266 U. S. 17, 27, 29 (1924). There this Court, in reversing, pointed out that the proceedings were instituted by the west side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree, and that the controversy was between them and the east side lines as to whether the former or the latter shall bear transfer charges on west bound through freight. In rejecting the petitioners' contentions, the Court said (pp. 29-30):

"In contempt proceedings for its enforcement, a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought; and the facts found must constitute a plain violation of the decree so read . . .

"The original decree does not require the east side lines to pay the charges for transferring west bound through freight. No provision so directs, and there is nothing in the circumstances to indicate that the court intended to prescribe the amount of such transfer charges or to fix liability therefor. *United States* v. *St. Louis Terminal,* 236 U. S. 194, 204. The suit was brought by the United States to prevent restraint of trade and monopoly in violation of the Sherman Anti-Trust Act. It did not relate to the transfer charges or division of joint rates. All the proprietary companies were defendants. The pleadings presented no issue between the west side lines and the east side lines; and no controversy between them was determined by the decree."

(b) Applied to the final decree of May 15, 1951, these principles lead to the inescapable conclusion that there is no injunction, either intended or prescribed, against USG's suing to recover compensation for the use of its patents in the 1948-1951 period.

Appellees cannot point to any injunctive provision in the 1951 decree, which in any way prohibits USG from suing to recover for actual use of its patents, and the compulsory licensing provisions included in the decree assure USG a reasonable compensation for such use (Art. VI, R. 567-570, 573).

The Government's position is that Article IV is sufficient to operate as a bar to USG's counts based on the license agreements which had been declared illegal, null and void, but it does not claim that Article IV operates as any bar to the other counts in USG's suits (R. 739-740). The district court concedes that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Conc. 7, R. 1156). It is clear, then, that the 1951 decree does not furnish any basis for compelling USG to dismiss, with prejudice, its *quantum meruit* and infringement counts (*i. e.*, Counts III, IV and V in the National and Certain-teed suits).

Neither in its opinion nor findings does the district court illuminate its ruling that Counts I and II "clearly violate the express provisions of Article IV."* Certainly there

* USG believed the inclusion of these counts a proper precaution in stating all possible theories of recovery (*supra*, pp. 14, 42), and did not consider Article IV to be an injunction prohibiting its doing so. The ruling in Conclusion 7 (R. 1156) that these counts "clearly violate" Article IV would certainly seem to be untenable. The corporate appellees' briefs below recognize that Article IV needs implementation to enjoin suits on the licenses (Nat'l. R. 775-6; Cert. R. 774-5).

is no precise and specific language enjoining the assertion of such a claim. Article IV adjudged the license agreements illegal, null and void, as is customarily done in antitrust decrees where violation of the Sherman Act is found. In some cases an additional restrictive provision against enforcement of the agreement declared illegal is incorporated in the decree;* in others, as in the instant case, no such further provision is included.** Under either method, the decree may be pleaded as a defense in any subsequent suit on the agreement, but it is difficult to see how such a suit could possibly violate the decree unless it also contained injunctive provisions against seeking to enforce the agreement. This Court found nothing inconsistent in *Hartford-Empire* in permitting the royalties col-

* See *U. S.* v. *International Business Machines Corp.* (S. D. N. Y. 1956), 1956 Trade Cases 68,245 (para. XII); *U. S.* v. *Michigan Tool Co.* (E. D. Mich. S. D. 1956), 1956 Trade Cases 68,290 (para. VI (c)); *U. S.* v. *Logan Co.* (W. D. Pa. 1956), 1956 Trade Cases 68,375 (para. V(F)); *U. S.* v. *Magcobar, Inc.* (S. D. Calif. 1955), 1955 Trade Cases 68,023 (para. V(B)); *U. S.* v. *American Mono Rail Co.* (N. D. Ohio 1955), 1955 Trade Cases 68,041 (para. IV(B)); *U. S.* v. *Kelsey-Hayes Wheel Co.* (E. D. Mich. 1955), 1955 Trade Cases 68,093 (para. VIII); *U. S.* v. *Wallace & Tiernan Co., Inc.* (D. R. I. 1954), 1954 Trade Cases 67,828 (para. XIV); *U. S.* v. *General Electric Co.* (D. N. J. 1954), 1954 Trade Cases 67,714 (para. V(c)(3)); *U. S.* v. *Mager & Gougelman, Inc.* (N. D. Ill. 1952), 1952-53 Trade Cases 67,233 (para. VIII(B)); *U. S.* v. *Bearing Distributors Co.* (W. D. Mo. 1953), 1952-53 Trade Cases 67,595 (para. VI); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,724 (para. IV).

** See *U. S.* v. *Ernest Lowenstein, Inc.* (S. D. N. Y. 1955), 1955 Trade Cases 68,106 (para. IV); *U. S.* v. *National City Lines, Inc.* (N. D. Ill. 1954), 1954 Trade Cases 67,917 (para. IV); *U. S.* v. *Investors Diversified Services, Inc.* (D. Minn. 1954), 1954 Trade Cases 67,799 (para. IV); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,687 (see para. 4 of decree as to Count II entered 9/13/50); *U. S.* v. *Phillips Screw Co.* (N. D. Ill. 1949), 1948-49 Trade Cases 62,394 (para. IV); *U. S.* v. *The Sperry Corp.* (S. D. N. Y. 1942), 1941-43 Trade Cases 52,844 (para. III).

lected under licenses to be held for the benefit of the patentee, notwithstanding the Sherman Act violation there found.

Moreover, there were no issues presented to the lower court by the pleadings in this case or otherwise, prior to the 1953 petitions and answers thereto, as to the right of USG to sue for use of its patents *pendente lite*. The Government in one amendment to the complaint had included a prayer that the defendant companies be enjoined from suing to recover for the unauthorized use of their respective patents. But the Government did not seek such relief at any time during the hearings which preceded the formulation of the 1949 decree or the 1951 decree, nor in its 1950 appeal to this Court for further relief. The prayer was obviously abandoned. At no time did the corporate appellees present such an issue prior to the filing of the 1953 petitions.

Article IV was first suggested to the district court by certain corporate appellees at the June 14, 1949 hearing on the Government's proposed findings, conclusions and decree, and defendants' objections thereto.* However, there was no suggestion on the part of any of the corporate appellees, or of the Government which adopted the suggestion in its reply argument, that the purpose of such a declaration of illegality was to excuse liability for the use of USG's patents prior to the effective date of the decree. On the contrary, the defendant licensees specifically urged other reasons for such a declaration of illegality (Nat'l. R. 350-1, 354; Cert. R. 361-2, 365; Cel. R. 373; New.

* The decree first proposed by the Government did not contain a provision comparable to Article IV (R. 157-166); the Government first adopted the suggestion in its reply argument at the June 14, 1949 hearing (R. 406-7). The corporate appellees filed memos concurring in USG's proposed provision declaring only the price fixing provisions illegal (USG's proposed decree, Art. IV, R. 192; Cert. R. 194-5; Natl. R. 204). Article IV in the form adopted was first presented by Mr. Dallstream, attorney for defendant Celotex (R. 372-3).

R. 385, 387-9, 391; Ebs. R. 377). And the spokesman for one of the defendant licensees, who appeared to be presenting the plan of the decree for all defendant licensees, in submitting Article IV in the exact language in which it was ultimately adopted, gave express assurance that the purpose of Article IV was not to avoid liability for use of the USG patents, saying:

> "I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid" (R. 373, 993).*

2. The December 9, 1954 Decree.

The appealed from decree of December 9, 1954, amending the 1951 decree, is unsupportable either as a proper exercise of the inherent powers of a court of equity to amend its decrees, or as a proper exercise of the reservation of jurisdiction contained in Article X of the 1951 decree.

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* The record shows that the defendant licensees had a plan of presentation of their position (R. 344-345), and that Mr. Dallstream, the Celotex attorney, because of his familiarity with the *Masonite* case, was to present the defendant licensees' views as to the suggested form of decree (R. 364-365). The district court, in its July 6, 1954 opinion, expressly found that Mr. Dallstream's assurances bound Certainteed as well as Celotex, but that National and the others made no commitments (R. 994). Nevertheless, the other corporate appellees were present and participating in the argument, and not one of them rejected the assurance to the court that in presenting the provisions of Article IV they were not attempting to find some way of avoiding license fees which, during this period, none of them had paid (R. 373, 345, 361, 377, 384, 423). Moreover, the district court in its findings completely ignores the significant facts that all the defendant licensees assigned reasons, other than royalty avoidance, for inclusion of Article IV, and magnifies out of all proper perspective USG's speculation that their purpose in urging the declaration of illegality of the licenses, rather than the price fixing provisions only, was to try to avoid accounting under the licenses (R. 1146-8). Findings 11, 12, 13 and 14 are inaccurate, misleading and unfair in presenting the proceedings leading to the 1949 decree and should be set aside (see USG's Objections and Suggestions with respect thereto, R. 1071-75).

(a) The district court, and the corporate appellees in their motions to affirm, recognize that any modification of the 1951 decree must be within the basic purposes of the decree as originally entered (R. 1001; Mo. to affirm Nat'l. 13, 14; Cert. 14), but this principle is violated by the 1954 amendment establishing new "rights" in the corporate appellees in disregard of the position of the Government and of the basic purposes of the original decree.

This being originally a proceeding brought by the Government for alleged Sherman Act violation, and the "heart of the final decree", according to the district court, being the adjudication in Article III that the defendant companies had acted in concert in restraint and monopolization of trade in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act (R. 1004), it is obvious that the basic purposes of the final decree are to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through patent license agreements or other concerted acts. The provisions of Articles IV, V and VI of the decree are designed to accomplish those purposes, and no suggestion has been made that they have in any way failed to do so.

As stated, none of the injunctive provisions of the 1951 decree, approved as to form by plaintiff and defendants below, in any way prohibits USG from recovering for actual use of its patents. In fact, the compulsory licensing provisions assure USG reasonable compensation for such use of its patents. The district court concedes that Article IV, the only provision relied on as in any way affecting USG's suits, does not expressly or by fair implication cover any of the counts in the pending suit other than Counts I and II (Conclusion 7, R. 1156).

The district court nevertheless by its December 9, 1954 decree approves a modification of the 1951 decree to in-

clude an extraneous matter which it recognizes was not dealt with at the time the decree was entered.* This is done, not for further protection of the public against Sherman Act violation, but rather to assure the corporate appellees the "right" to avoid payment for their actual use of USG's patents, notwithstanding the fact that the 1951 decree adopts their proposals that they be assured the continued use of such patents, but upon payment of a reasonable royalty therefor (R. 567-70, 573).

The 1954 amendment to the final decree is not necessary or appropriate to carry out this Court's direction that the decree should "cure the ill effects of the illegal conduct" and that "the conspirators should, so far as practicable, be denied future benefits from their forbidden conduct", as has been asserted (Mo. to Affirm—Nat'l. 4, 8, 14; Cert. 4, 14). Such admonition would apply with equal force to the co-defendant licensees as well as to the licensor. Moreover, the actual use of the patents *pendente lite,* and the payment of a reasonable compensation for such use, have no connection either with curing the ill effects of past illegal conduct or denying future benefit from forbidden conduct, as this Court recognized in *Hartford-Empire.*

The Government, the sole spokesman for the public interest, and the only party plaintiff in this case, has significantly stated that it takes no position as to whether USG's alternative claims for recovery on a *quantum meruit* basis or for infringement (*i.e.* Counts III, IV, V and VI) are barred by the final decree, or as to whether this Court should or should not enter an order enjoining prosecution of such alternative claims. If the Government believed

* If, as the lower court found, Counts I and II clearly violate the 1951 decree, there was no need to amend the decree to compel dismissal of those counts. The amendment was only necessary to compel dismissal of the *quantum meruit* and infringement counts, which the lower court concedes were not covered, expressly or by fair implication, by the 1951 decree.

that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary or appropriate to effectuate the basic purposes of the decree, or to protect the public interest, there is no doubt but that it would have been before the district court vigorously urging that the decree be so modified*.

Nor does the 1954 modification of the final decree merely make explicit that which necessarily must have been implied if Article IV of the decree is to have purpose or effect. Such a claim is unwarranted and conflicts with the trial court's conclusion that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II.

The action of the district court in enjoining the pending suits therefore does not effectuate the purposes of Article IV, but improperly injects into the decree a new subject matter of a purely private nature.

(b) Not only does the 1954 modification go beyond the basic purposes of the decree, but it also violates the well established principle that the rendition of a judgment does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se* upon matters which they did not litigate or have an opportunity to litigate between themselves. In other words, a judgment in favor of a plaintiff against two or more de-

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* Judge Cole, in his dissenting opinion, said (R. 1018): "Just why this court, under the circumstances, should feel called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate."

fendants is not conclusive of the rights and liabilities of the defendants *inter se*, except as to matters expressly put in issue between them, by cross-complaint or other adversary pleading, and determined by the judgment in the first action.*

There were no issues joined as between the co-defendants, nor did the court purport to make any adjudication of rights as between them in entering either the 1949 or the 1951 decrees, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of USG's patent, but upon payment of a reasonable royalty therefor.**

(c) Moreover, there is no justification whatsoever for the extent to which the district court has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. The district court found that one result of the patent misuse was to create an economic situation where the conspirators, other than USG, had organized their plants and business operations upon the continued use of USG's patents, and when this Court found a violation of the Act in its first opinion, these licensees were placed in an "uncertain and perilous position" since their operations were based on licenses declared in violation of the Act, and they elected to disregard the licenses and to continue use of the patents (R. 1145-46). In this situation the district court found a basis for jurisdiction "to secure or pre-

* Restatement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 422; 30 Am. Juris. 966-7; 101 A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Kimmel* v. *Yankee Lines*, 224 F. 2d 644 (3rd Cir. 1955); *Fouke* v. *Jordy*, 289 F. 220 (5th Cir. 1923); *Owensboro* v. *Westinghouse*, 165 F. 385 (6th Cir. 1908).

** 1951 decree, Art. VI App. B, *infra*, p. B8, R. 567-70, 573; 1949 decree, Art. VI and VIII (R. 476, 482).

serve the fruits and advantages" of the decree entered herein (R. 986).

Just what "fruits and advantages" co-conspirator licensee defendants are entitled to is indeed difficult to comprehend. If co-conspirators National and Certain-teed conditioned their business operations upon the continued use of USG patents, that was part and parcel of their participation in the conspiracy. A court cannot equitably say at a later date that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The corporate appellees were all co-conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of another's patents? How can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining a suit in another court to recover money for their use of the patents? The cases establishing the misuse doctrine can have no such application or lead to any such result.

The district court in this instance even goes so far as to hold that the co-conspirators' illegal activity created "rights" enabling them to grab the reins in a Government antitrust suit and obtain an amendment of the decree in order to protect and enforce their spurious private "rights."* The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for many years prior thereto.

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* The district court opinion relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States*, 312 U. S. 502, to support the conclusion that the petitioners were given "rights" in the final decree which supported their petitions for relief (R. 982-984). That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

(d) Nor can the district court's action be justified by the reservation contained in Article X of the decree. That reservation is not a "broad" one, as the district court suggests (*supra*, p. 28). In fact, the reservation for making such orders as may be "necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith" is a relatively narrow reservation as a comparison with similar provisions in other antitrust decrees will show.* Certainly it does not have the effect of broadening the inherent power of the court to make amendments to carry out the basic purposes of the decree.

* This falls far short of a reserved jurisdiction "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof" to which corporate appellees refer in their motions to affirm (Natl. 6-7; Cert. 7).

CONCLUSION.

For the foregoing reasons, the judgment of the district court should be reversed, with directions to enter a judgment granting appropriate relief to appellant.

Respectfully submitted,

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APPENDIX A.

IN THE UNITED STATES DISTRICT COURT.
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al.,
Defendants.
No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners*, *vs.* United States Gypsum Company, *Respondent*.

DECREE.

Filed, Dec. 9, 1954, Harry M. Hull, Clerk.

Petitions having been filed in this Court by defendants, National Gypsum Company, Certain-teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum Company, Inc., on March 25, April 22, May 13, and June 3, 1953, respectively, for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951 and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions

and answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is hereby modified by adding to Article V thereof a paragraph reading:

> Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York.

3. Costs arising out of these proceedings instituted by Petitioners shall be assessed against United States Gypsum Company.

Dated this 9 day of December, 1954.

/s/ KIMBROUGH STONE,
Judge,

/s/ EUGENE WORLEY,
Judge.

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Decree and think these actions by Petitioners should be dismissed for lack of jurisdiction.

/s/ WILLIAM P. COLE, JR.,
Judge.

APPENDIX B.

FINAL DECREE, MAY 15, 1951.

IN THE UNITED STATES DISTRICT COURT.
For the District of Columbia.

UNITED STATES OF AMERICA, *Plaintiff,* *vs.* UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, Doing Business Under the Name of TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; FREDERICK G. EBSARY; and FREDERICK TOMKINS, *Defendants.*	Civil Action No. 8017.

PRELIMINARY STATEMENT.

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the

case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, *J.* and Jackson, *J.*, constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, *J.*, who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to

its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

ARTICLE I.

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

ARTICLE II.

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metalized) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Company within a period of five (5) years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, divisions and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938 between

United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

and any supplement or amendment to any of said patent license agreements.

ARTICLE III.

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

ARTICLE IV.

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

ARTICLE V.

The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

ARTICLE VI.

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties therefor. Defendant United States Gypsum Company is hereby

enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses unless it requires as a condition of such sale, transfer or assignment that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this decree, and unless the purchaser, transferee or assignee shall file with this Court, prior to or as a part of the consummation of said transaction, an undertaking to be bound by said articles of this decree.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c) provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold; (d) reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any person acceptable to the licensor and licensee, who shall report to the licensor only the amount of royalty due and payable; (e) reasonable provision may be made for marking the gypsum board manufactured or sold under the licensed patent; and (f) reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records or for other material breach of the terms of the license agreement by licensee, or in the event licensee shall be adjudged a bank-

rupt. The license agreement shall be in writing signed by the parties thereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of each patent licensed, in the manufacture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree.

3. Upon receipt of written request for such a license defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor shall within ten (10) days thereafter apply to this Court for a determination of a reasonable loyalty or be deemed to have abandoned his said request for such license. The applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney General of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the court shall apply to such patent or patents in the license of the applicant from the date of his last written request for such license, and to such patent or patents in all other licenses then or thereafter issued under this decree from the date of such determination. Pending the completion of any such proceeding, applicant shall have the right to make, use and vend under the patent or patents to which his application pertains upon the terms and conditions as set forth in paragraph 4 of this Article, provided

he files his application for the determination of a reasonable royalty as aforesaid.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant or the United States Gypsum Company may apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the court, providing for the periodic payment of royalties at such interim rate from the effective date of such interim license. If applicant fails to accept such interim license or fails to pay the interim royalty in accordance therewith, any such action or omission shall be grounds for the dismissal of the application for the determination of a reasonable royalty and the withdrawal or cancellation of the interim license. Where an interim license has been issued pursuant to this paragraph, reasonable royalty rates for any patent or patents as finally determined by the court shall apply to such patent or patents in the licenses of the applicant and all other applicants then before the court and shall be retroactive with respect to each such applicant to the date of his said written request for such license.

Article VII.

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937,

commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

ARTICLE VIII.

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree or as otherwise required by law.

ARTICLE IX.

Judgment is entered against the defendant companies for 50% of the costs of $2,824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

ARTICLE X.

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Let the decree be entered.

HAROLD M. STEPHENS,
FINIS J. GARRETT,
JOSEPH R. JACKSON.

May 15, 1951.

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APPENDIX C.

Federal Rules of Civil Procedure.

Rule 8.

General Rules of Pleading.

a. Claims for Relief. A pleading which sets forth a claim for relief, whether an original claim, counterclaim, cross-claim, or third-party claim, shall contain (1) a short and plain statement of the grounds upon which the court's jurisdiction depends, unless the court already has jurisdiction and the claim needs no new grounds of jurisdiction to support it, (2) a short and plain statement of the claim showing that the pleader is entitled to relief, and (3) a demand for judgment for the relief to which he deems himself entitled. Relief in the alternative or of several different types may be demanded.

b. Defenses; Form of Denials. * * *

c. Affirmative Defenses. * * *

d. Effect of Failure to Deny. * * *

e. Pleading to be Concise and Direct; Consistency.

(1) Each averment of a pleading shall be simple, concise and direct. No technical forms of pleading or motions are required.

(2) A party may set forth two or more statements of a claim or defense alternatively or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on

equitable grounds or on both. All statements shall be made subject to the obligations set forth in Rule 11.

f. Construction of Pleadings. All pleadings shall be so construed as to do substantial justice.

35 U. S. C., Section 271.

Sec. 271. Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. (July 19, 1952, c. 950, Sec. 1, 66 Stat. 811.)

15 U. S. C., Sections 1, 2, 3 and 4. (Sherman Act).

Section 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* * * * Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 1, 26 Stat. 209; as amended July 7, 1955, ch. 281, 69 Stat. 282.)

Section 2. Monopolizing trade a misdemeanor; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 2, 26 Stat. 209; as amended July 7, 1955, c. 281, 69 Stat. 282).

Section 3. Trusts in Territories or District of Columbia illegal; combination a misdemeanor.

Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in

any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 3, 26 Stat. 209; as amended July 7, 1955, c. 281, 69 Stat. 282.)

Section 4. Jurisdiction of courts; duty of district attorneys; procedure.

The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of sections 1-7 of this title; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree, the Court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises. (July 2, 1890, c. 647, § 4, 26 Stat. 209; Mar. 3, 1911, c. 231, § 291, 36 Stat. 1167.)